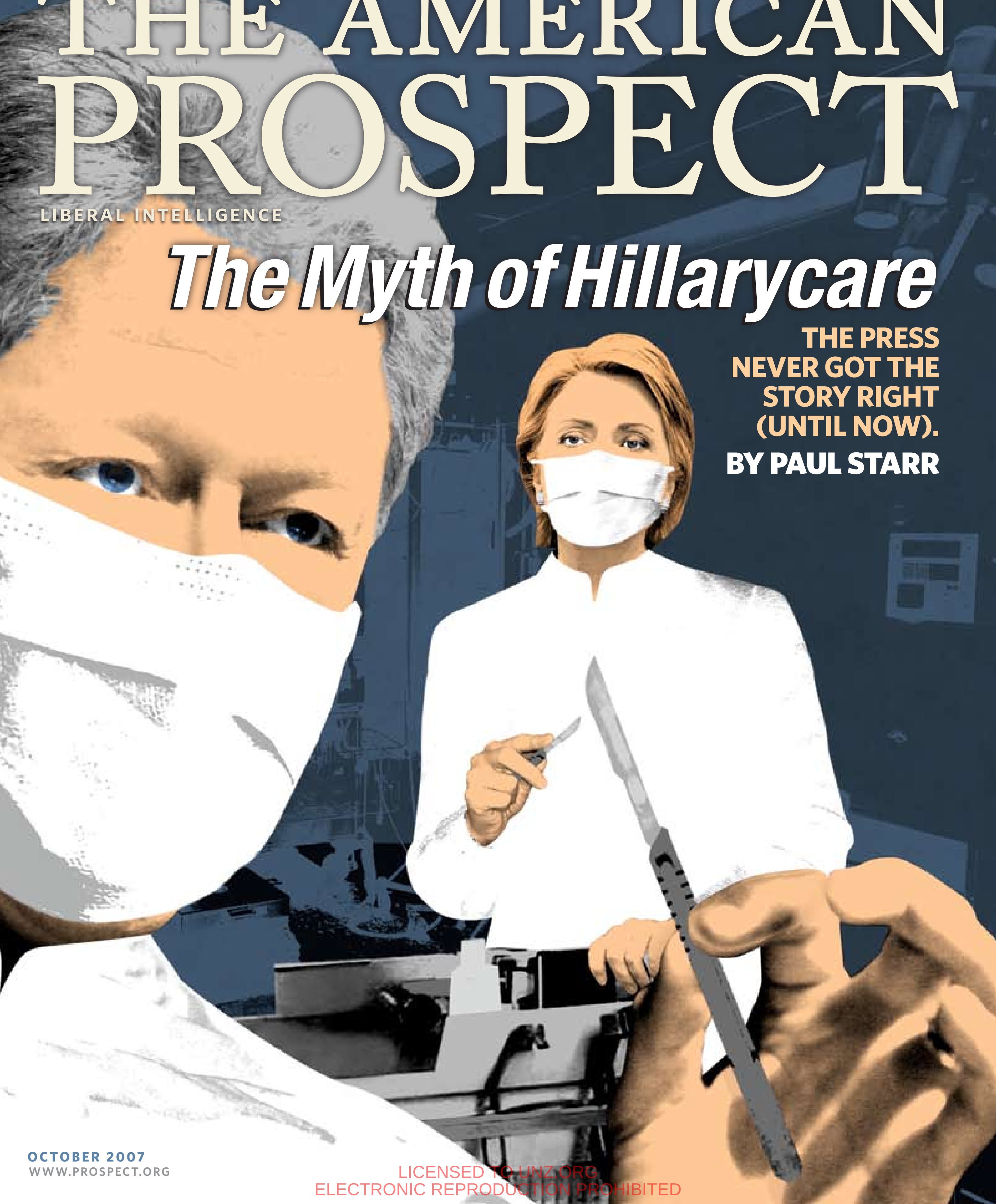
KUTTNER: THE BUBBLE ECONOMY, POISED TO POP | ROSIN: ONWARD, CHRISTIAN KIDDIES | MISHEL & ROTHSTEIN: SCAPEGOATING SCHOOLS

THE AMERICAN PROSPECT

LIBERAL INTELLIGENCE



The Myth of Hillarycare

THE PRESS NEVER GOT THE STORY RIGHT (UNTIL NOW).

BY PAUL STARR

OCTOBER 2007
WWW.PROSPECT.ORG

THE AMERICAN PROSPECT

WWW.PROSPECT.ORG VOLUME 18 • NUMBER 10 OCTOBER 2007

"Of course she supported national health insurance, or any kind of plan that would provide better health for the needs of people."

—FORMER SEN. CLAUDE PEPPER ON ELEANOR ROOSEVELT IN *THE MAKING OF THE NEW DEAL*, EDITED BY KATIE LOUCHHEIM

FEATURES

COLUMNS

CULTURE & BOOKS

DEPARTMENTS

Cover art by John Ritter

The American Prospect (ISSN 1049-7285) is published monthly (except February and August) by The American Prospect, Inc., 2000 L Street., NW, Suite 717, Washington, DC 20036. Periodicals-class postage paid at Washington, DC, and additional post offices.

Postmaster: Please send address changes to The American Prospect, P.O. Box 601, Mt. Morris, IL 61054-7531. Printed in the United States.

THE AMERICAN PROSPECT

ADVERTISING **Ellen Meltzer, (202) 776-0730 x 114**
SUBSCRIPTION CUSTOMER SERVICE **1-888-MUST-READ (687-8732)**
SUBSCRIPTION RATES **$24.95 (U.S.), $34.95 (Canada) and $39.95 (foreign)**
MEDIA RELATIONS **Dorian Friedman, (202) 776-0730 x 111**
NEWSSTAND DISTRIBUTION **Disticor (905) 619-6565 or (631) 587-1160**
REPRINTS **permissions@prospect.org**

Check out our newly expanded and re-designed Web site. Our weblog TAPPED has won the 2007 Hillman Award for Best Blog. >>>

Iraq Trap 2

"AMERICANS ONLY WANT TRAGEDIES WITH HAPPY endings," the novelist and critic William Dean Howells once said, and that strain in our culture seems to be at work once again in the debate about Iraq. Many of the war's original supporters now concede it was a tragic mistake, but they're still holding out for it to end happily. Like the president, they grasp at a few positive statistics or favorable developments in one province, struggling to sustain the hope that bad decisions can be made right if only our troops stay in Iraq until we turn things around.

And so they lend their assistance in the laying of a trap. Iraq Trap 1 was the war itself—America stuck in the sands of Mesopotamia, lured there by false claims about weapons of mass destruction and promises of a conflict that would be quick and easy. Iraq Trap 2 is a political trap—a way that the Republicans may have found to win the war at home by setting up the next president to take the blame when that president is likely to be a Democrat.

Here is how that second trap might work. George W. Bush is certain to claim through the end of his term that progress is being made and then to dump the war into the lap of his successor. And when sooner or later the next president removes American troops, only to see Iraq fall into the hands of anti-American leaders or fall apart completely, the Republicans will charge that had the Democrats not been weasely cowards, victory could have been ours.

The challenge for the Democrats is not just to figure out how to extricate the United States from Iraq Trap 1. The tricky political challenge is to avoid falling into Iraq Trap 2.

Which makes it crucial that the 2008 election provide a mandate for ending the war. It should be the American people who have made this decision.

The Democratic candidate should not promise an impossible victory, only an honorable end to the conflict as expediently as possible, without any guarantees that the United States can guide Iraq's long-term destiny or any suggestion that we should be held responsible for it. Even if it takes time to get the United States out, George W. Bush's successor has to avoid taking over ownership of the war from him.

The Democratic presidential candidate should not promise an impossible victory, only an honorable end to the conflict.

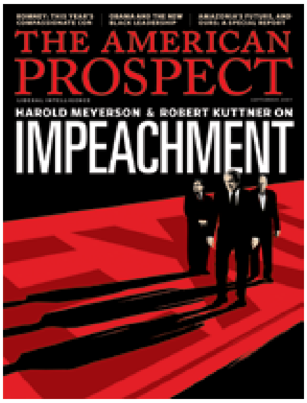
Instead of drawing sharp distinctions with the Republicans on the war, however, some in the Democratic Party want to blur the differences in a fine mist of bipartisanship. The United States has been fighting the Iraq War for longer than we fought World War II, but a number of Democrats on the Baker-Hamilton Commission recently served on another group at the U.S. Institute of Peace that recommended that the United States give the war another five years.

No one knows what the region, let alone Iraq, will be like five years from now. One might as well say U.S. troops will have to stay there indefinitely. No matter when we leave, whether it is 2008 or 2012, we can't control what will happen in Iraq in the years beyond. The idea that we are going to leave behind a stable, pro-American national government, let alone a multiethnic democracy, is a chimera. The damage is done. Our intervention raised the Shia to power, strengthening Iran, and ignited the war between Shia and Sunni that we are unable to settle. Whether or not we accept it, the country has been effectively split up. And except in Kurdistan, the groups that have emerged as dominant—though they may find it expedient to ally with us for the moment—are not likely to be our buddies for long.

Combatting al-Qaeda remains the primary legitimate rationale for the U.S. military presence in the region. But just as Bush conflated Iraq and al-Qaeda to justify starting the war, so the war's supporters still play on that confusion to justify continuing it. Although the group known as al-Qaeda in Iraq (AQI) is a small fraction of the Sunni insurgency, the administration continually invokes it as a rationale for the war. Given Shia predominance in Iraq, AQI has no chance of taking over the country. And the odds of it becoming entrenched in Sunni areas are fading. The fight against al-Qaeda ought to focus on the areas where al-Qaeda itself is centered: in western Pakistan and Afghanistan.

There is probably no way to avoid a debate about "Who Lost Iraq?" Indeed, it's already begun. Bush managed the war so ineptly from the start, however, that conservatives will have a tough time pinning the blame on anyone else—so long as his successor and the Democrats don't take ownership of the war and fall into Iraq Trap 2. TAP

— PAUL STARR



Avoid the Hangover

LIKE GETTING DRUNK or voting for Ralph Nader, impeaching George Bush ["First Gonzales, Then Bush," September 2007] may seem like fun at the time—but what a headache in the morning.

Here are three reasons why impeachment will harm Democrats—and democracy.

First, a tactical point. Our plate is full. We have to pick a candidate and win a presidential election. We'll need another—what, six? seven?—Senate seats if our agenda is going anywhere. Impeachment will suck all the oxygen out of the hard work of trying to win and—just this once—actually preparing to govern.

Yes, Bush and Cheney are trampling the Constitution and, worse, the American creed itself. Their thuggish stance is fast becoming the official Republican position. But the only way to stop this sordid assault on basic American values is to crush it at the polls.

Finally, let's go easy on the Beltway Maoism: impeachment as a way to educate the public. Saving the republic is a job, not for Washington elites, but for an angry and aroused public. Which gets us back to thinking about how to win big at the next election. We'll do so by remembering that essential wisdom of the 1960s: power to the people!

JIM MORONE
Professor,
Brown University
Providence, RI

High Crimes

HAROLD MEYERSON thinks ["The Trouble With Impeachment," September 2007] the Democrats can't walk and chew gum at the same time. Without spines they can't even get off the ground. In defense of the Bill of Rights, impeaching Bush and Cheney would honor Thomas Jefferson's legacy.

LANNY ANDERSON
Richmond, VA

Pro-Choice, He Protests

I APPRECIATE TERENCE Samuel's essay ["Young, Black, and Post-Civil Rights," September 2007] regarding the changing landscape for black politicians. I do wish, however, to correct the article's description of me as "anti-abortion."

I believe that a woman's reproductive choices are constitutionally protected, and I endorse the *Roe v. Wade* framework. I have voted to prohibit the late-term procedure known as a "partial birth" abortion, and I generally support parental notification in the event of any invasive medical procedure involving a minor—but these stances are to me consistent with *Roe*, not at odds with it.

ARTUR DAVIS
Member of Congress

In Motion

ONE CAN QUIBBLE WITH Cass Sunstein's trope ["The Myth of the Balanced Court," September 2007] of a motionless and centrist John Paul Stevens appearing to move to the left while in fact the Supreme Court moved to his right. On affirmative action, for example, Justice Stevens has moved sharply leftward. In 1980, Stevens compared a law requiring that 10 percent of federal contracts go to minority-owned businesses, to Nazi race laws. The Justice Stevens of 2007 would likely dismiss such a comparison as offensive right-wing hyperbole.

But if Sunstein misses the dynamism in the voting records of some individual justices, he is right about the court as a whole. By the standards of the 1960s and 1970s, there are no liberal justices today.

Nor is there any great mystery why. Republican presidents since Nixon have frequently used the appointments process to shift constitutional law to the right. Halting that shift—much less reversing it—will require not only liberal judicial visionaries, but also political spine.

MICHAEL DORF
Professor,
Columbia Law School
New York, NY

Letters to the editor should be sent to letters@prospect.org or mailed to The Editors, The American Prospect, 2000 L St., NW, Suite 717, Washington, D.C. 20036.

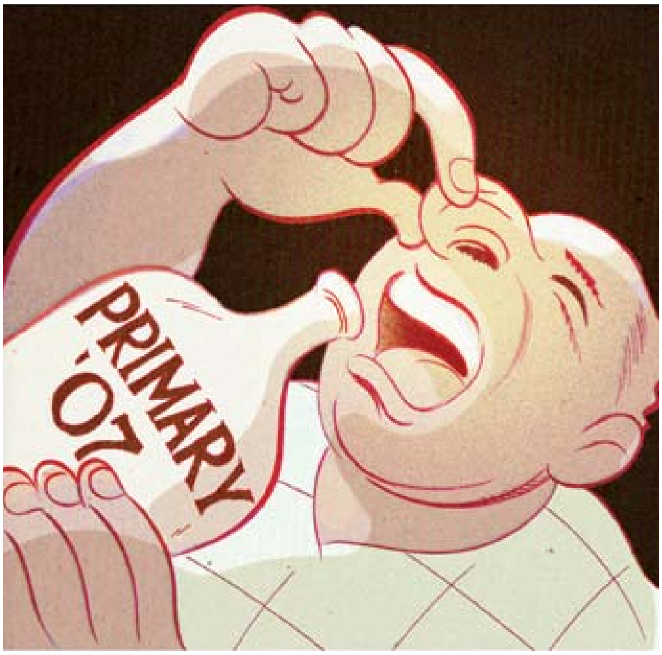
FROM THE EXECUTIVE EDITOR

In the second week of Bill Clinton's presidency, Paul Starr—then on leave from both his job as a Princeton sociology professor and his calling as the *Prospect*'s co-editor so that he could serve as a White House senior health-policy adviser—met with First Lady Hillary Clinton, whom the president had just named to chair his health-care reform task force. As Starr writes in our cover story, Hillary spoke of her "husband's plan," which it certainly was, since Bill Clinton had essentially laid out the plan during his 1992 campaign. In fact, though the media created an entire mythology of "Hillarycare," much of it demonizing the first lady, it was Bill who devised and fine-tuned both the plan and the campaign that the administration waged on its behalf. With Hillary now a leading candidate for president and with the media recycling old stories about how Hillary doomed universal health care, Starr decided it was time to set the facts straight about the Clinton Plan of '93, which he does in this groundbreaking behind-the-scenes account.

Elsewhere in the issue, Bob Kuttner puts the mortgage meltdown and the hedge-fund tremors in their proper perspective as elements of a deregulated, financialized bubble economy that may be on the brink of bursting. Your investment counselor and I agree that this is a piece you need to read.

— HAROLD MEYERSON

Up Front



E PLURIBUS ULCER

Even before this year's scheduling madness, it wasn't as if the presidential primary process was a thing of beauty. By ancient tradition, it begins in Iowa, an all-white, aging, economically populist, socially conservative state; then moves to New Hampshire, an all-white, increasingly yuppified, economically centrist, socially liberal state. After these two cancel each other out, it's on to South Carolina, which elevated Strom Thurmond to elective office in 1929 and kept him there until 2002. Is this a system? Who could devise anything worse?

The various states of the union, that's who. States that are home to more than half the nation's population have bumped their primaries up to Feb. 5, and now Florida and Michigan have cut into line before them. No one is arguing that he who decides first decides best; this is all about maximizing political clout and revenues. In the process, the states have demonstrated not the genius but the occasional imbecility of the federal system. Plainly, we need national legislation mandating a national primary process—with, as many have suggested, rotating regional primaries. Forget this states' rights crap; it's a slippery slope to anarchy. At the risk of sounding like the New Dealers (a risk we at the *Prospect* frequently take), it's time for some national planning.

GORE ENDORSING?

In an interview with the unofficial Harvard alumni magazine *01238*, Al Gore recently indicated he would likely endorse a candidate for president. He also confirmed that the vice president is in fact part of the executive branch and complimented Sen. Chris Dodd for his support of a carbon tax. Gore discussed his friendship with "Leo" (Leonardo DiCaprio), whom he described as "illustrat[ing] how celebrity advocacy can be a noble calling when it is culled with intensive study, mastery of detail, and passionate concern." Asked if he felt obligated to endorse Sen. Clinton, the wife of his former boss, he responded, "Uh ... no."


Al and Leo at the Academy Awards

DUMB AS HELL

Newly uncovered tapes of Richard Nixon reveal that in 1973 he had none too positive a view of Fred Thompson, now the newest entrant in the Republican presidential sweepstakes. The then-president was disappointed that Thompson had been named minority council for the Senate Watergate investigation, because he felt that Thompson simply didn't have the smarts to represent him effectively. When told of Thompson's appointment, Nixon responded, "Oh shit, that kid," adding that the Tennessee attorney was "dumb as hell." One trembles at the thought of what Nixon would have said in private about George W. Bush.

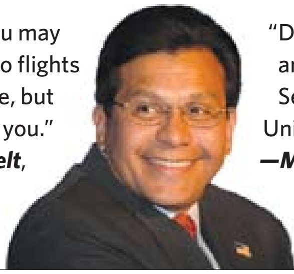
ALL DRESSED UP

Ted Nugent, conservative rock star, gun enthusiast, TV personality, and friend of eminent Republicans from Texas Gov. Rick Perry to President Bush, recently did his bit for bipartisanship at one of his concerts. Between numbers, he paused to note that Sen. Hillary Clinton was a "worthless bitch" and Sen. Dianne Feinstein a "worthless whore." He invited Sen. Barack Obama to "suck on" his machine gun and suggested that Sen. Clinton "ride one of these into the sunset" while brandishing what appeared to be an assault rifle. If you think that suggesting prominent Democrats should be raped and/or murdered would diminish the Nugent ardor of conservative Republican media personalities, you don't know your conservative Republican media personalities. Sean Hannity, asked to condemn Nugent's diatribe, said, "No, I like Ted Nugent. He's a friend of mine." Nugent is not only a passionate champion of the Iraq War (he has suggested our only mistake is

ERIC PALMA; AP IMAGES

THE QUESTION: WHAT SHOULD ALBERTO GONZALES' NEXT JOB BE?

"Travel agent. You may think there are no flights to Cairo available, but he'll find one for you."
—Kermit Roosevelt, *law professor, UPenn*



"Director of Career and Placement Services, Regent University Law School."
—Markos Moulitsas *founder, Daily Kos*

"Given his comment that his worst days were better than his farmworker father's best days, he should offer free legal aid to the United Farmworkers."
—Jake Bernstein, *author*

not using nuclear weapons), but he managed to dodge the draft during the Vietnam War by forgoing all forms of personal hygiene for a month before his physical, for which he showed up wearing clothes covered in urine and feces. If that's not the basis of a bond with our president, we don't know what is.

ECONOCRACY

According to Bryan Caplan's recent book, *The Myth of the Rational Voter*, most people are irrational when they vote. Why are they irrational? Because they don't think like libertarian economists, Caplan concludes. A new study, however, shows that countries whose leaders have training in economics do no better than countries led by non-economists. As the author, political scientist Anil Hira, puts it, "the article finds that we cannot conclude that leadership training in economics leads to better economic outcomes." (There goes our "Draft Jamie Galbraith" movement.) Of course, to truly test Caplan's thesis we would need a nation whose electorate consists solely of the University of Chicago economics department, and, since that seems unlikely to happen anytime soon, libertarians everywhere can continue to console themselves with the thought that economists would govern wisely if only those meddling voters would leave it to them.

LANDOV; AP IMAGES

PARODY *by T. A. Frank*

"[Bush] will be running what he called 'a fantastic Freedom Institute' promoting democracy around the world. But he added, 'I can just envision getting in the car, getting bored, going down to the ranch.'" —*The New York Times*, Sept. 2, 2007

THE FANTASTIC FREEDOM INSTITUTE

ESTABLISHED IN 2009

FFI'S HISTORY

"I'm sure I said, 'This is the policy, what happened?'"
—FFI founder, President George W. Bush, December 2006

The Fantastic Freedom Institute in Dallas was founded in 2009 by former President George W. Bush, who envisioned a future beyond the Oval Office of not only promoting freedom but also "getting in the car, getting bored, going down to the ranch." Toward this, FFI seeks to sporadically promote sound governance, with a periodic commitment to freedom-loving folks and an intermittent steely hatred of evildoers.

FFI'S MISSION

"This is worthless, anyway. I'd like an ice cream."
—FFI founder, President George W. Bush, December 2006

When in session, FFI believes in a freedom agenda that will reunite every human flower on God's earth with the sunlight of God's liberty. But sometimes freedom is boring. FFI enjoys recreational biking. FFI is hungry and would like a hotdog.

FFI ON FOREIGN POLICY

"F--- Saddam—we're taking him out."
—FFI founder, President George W. Bush, March 2002

FFI also recognizes that each threat in the world poses a unique set of problems that can be managed with a sensitive balance of carrots and sticks, provided that rear end of the threat has been stuffed with said carrots and sticks. FFI hates and isn't talking to Kim Jong-Il, Mahmoud Ahmadinejad, or Fidel Castro, although FFI is BFF with Tony Blair and that Spanish guy who was there before.

FFI ON HUMAN RIGHTS

"Common Article III says that there will be no outrages upon human dignity. It's very vague. What does that mean, 'outrages upon human dignity?'"
—FFI founder, President George W. Bush, September 2006

FFI believes in human rights. But make no mistake about it: FFI also believes in the right to ask bad guys tough questions in some tough ways that we can't discuss because it'd let the tough guys know how tough our tough questions are.

HOW CAN I HELP?

"Replenish the ol' coffers."
—FFI founder, President George W. Bush, December 2006

For a $75,000 coffer-filler, you become a Fantastic Freedom Associate. This entitles you to receive the latest Fantastic Freedom publications, discounts to nation-building events, and the opportunity to change one small but oppressive island regime of your choice. You are also eligible for discounted tickets for the FFI annual ***"F--- You, We're Taking You Out"*** world freedom cruise.

New Politics Gets Newer

BY MARK SCHMITT

WHO WOULD HAVE PREDICTED THAT THE DEFINING difference in the Democratic presidential campaign would involve not Iraq but reform of the political process, particularly the role of lobbyists? At the candidates' joint appearance at the YearlyKos convention of netroots activists in August, the question of taking money from lobbyists earned Barack Obama and John Edwards—who don't—their biggest cheers, and Hillary Clinton—who does—her biggest boos. Since then, the fight has only escalated.

Most Democratic strategists tell their clients that reform of the political process is a marginal issue, of interest to a few NPR listeners but hardly the meat and potatoes of politics.

The strategists were surprised in 2006, when polls showed process reform (though few Democrats actually talked about it) to have been a key factor in the Democratic congressional victories, perhaps boosted by the sexual twist provided by ex-Rep. Mark Foley. Still, the strategists insist that such moments—when bad money and sex pile up so high on the other side that they influence an election—are few and fleeting.

But if you think of political reform as addressing more than lobbying, campaign finance, and furtive sex, it has a deep history within the progressive tradition, and the last election and recent debates suggest that reform in the larger sense may have its moment. For the tone of an alternative approach, American liberals should look at British Prime Minister Gordon Brown's Sept. 3 speech on "a new politics." Brown called for "a better party politics," in which more Britons would be members of a party; for "opening up our political system to new ideas"; and for strengthening participatory democracy at the local level.

These are the kinds of ideas that were broadly debated among American progressives during the 1990s, when just below the surface of old politics there emerged a sometimes vague quest for "new politics." Some of it involved timeworn and concrete reform issues such as campaign finance, and a grassroots push for publicly funded campaigns started to take off in 1996. But there was also interest in voluntarism, in civil society and its role in strengthening democratic habits (Robert Putnam's *Bowling Alone* was influential), and in deliberative democracy and local participation. The new politics movement didn't arise in opposition to the Clinton presidency, but it was on a separate track, and over time it diverged from mainstream winning-is-everything Democratic politics.

The new new politics needs more to it than "thou shalt nots."

Both Edwards and Obama can claim roots in the new politics tradition of the 1990s. Edwards' Senate victory in 1998 was seen as proof that campaign reform mattered. The incumbent, Republican Lauch Faircloth, had been labeled "Senator For Sale" by *Forbes* magazine, and Edwards highlighted this by proposing that the two agree on a spending limit and campaign by debate instead of TV ads. Obama was part of the reform faction in the notoriously corrupt Illinois legislature, served on the board of the Chicago-based Joyce Foundation—a key supporter of reform in the Midwest, and participated in Putnam's innovative Saguaro Seminar on civil society.

The Bush era, however, put some of the reform impulse on ice. Who has the luxury of worrying about deliberative democracy, campaign finance, or the politics of meaning when the Constitution itself is at stake? In these times, winning really is everything, and worrying about the rules of the game has to wait.

As the possibility of a new political era glimmers on the horizon, the new politics tradition is reawakening, but in a different form. The polarizing forces of the last six years have brought forth a fresh activism that creates new opportunities. In the 1990s, we dreamed that young people could see electoral politics as relevant; now they do. We wanted to make it possible to run for office without depending on a few large donors; small donors made dozens of candidacies possible last year. We envisioned strong and meaningful political parties, and we now have two of them. We hoped for a politics that encouraged ambitious and new ideas; the platforms of the 2008 Democratic candidates live up to that hope.

The new new politics needs more to it than "shalt nots," as in, "thou shalt not take money from lobbyists." It can build on its new strengths to encourage an even higher level of engagement, through reforms that actively promote organizing and participation, such as matching funds for small donors or open-ballot laws like those that allowed the creation of New York's vigorous Working Families Party. Indeed, the renewal of new politics requires a little more imagination than any of the candidates has yet shown. TAP

No Country for Mothers

BY SARAH BLUSTAIN

GOOD NEWS! IF YOU ARE AN ORDINARY MORTAL LIVING in the United States, your chances of staying alive are better than ever. According to new government numbers, the rate of Americans dying in 2004 (the most recent year to be calculated) hit a record low, while life expectancy—for blacks and whites, men and women—hit a record high. Men were closing their historic life-expectancy gap with women, and African Americans were closing their life-expectancy gap with whites. Even the babies were doing well: The infant mortality rate dropped, too.

Sadly, however, if you are a *pregnant* mortal living in the United States today, your chances of dying appear to be greater than ever. Yes, the total number of women who die in childbirth in America is low. But according to the Centers for Disease Control's new "National Vital Statistics Report," the number of women dying in or around childbirth has risen—putting the United States behind some unsurprising countries, like Switzerland and Sweden, and some surprising ones, like Serbia and Macedonia, Qatar and Kuwait, in its rate of maternal mortality. In rankings calculated on 2000 numbers, the World Health Organization (WHO) ranked the United States at No. 29 on the list, even though, according to the most recent statistics, there is only one country, Tuvalu, that spends more on health care as a percentage of gross domestic product than the United States.

Now, all this is a bit of a red herring. The honest fact is that we know very little about maternal mortality for the very simple—problematic—fact that there is no national or even consistent state-level system for tracking whether a woman has died from birth-related causes; her death certificate will likely not indicate the obstetric issue that led to complications and death. And another honest fact, with thanks to sociologist Kenneth Hill of the Harvard Center for Population and Development Studies for his number crunching, is that the increases in this year's report probably have more to do with improvements in those tracking methods in a few states.

But chances are, even if this year's increases are due to changes in how pencil pushers push their pencils, the number of women dying in and around childbirth is even higher than the CDC's most recent report indicates. Marsden Wagner, former director of Women's and Children's Health at the WHO, writes in his 2006 book *Born in the U.S.A.* that "in the United States, at least half of maternal deaths are not reported anywhere ... and that with adequate medical attention, close to half of these women need not have died."

It's that last bit that should concern us. Some maternal mortality is inevitable. In 2000, the Department of Health and Human Services released its "Healthy People 2010" initiative, which set objectives for the first decade of this century. The goal on maternal mortality was 3.3 per 100,000. That we have been moving away from that number—with data that likely underrepresents the truth—should tell us that something we are doing, or not doing, is driving up the death rate.

At least some of the problem may be in *over*treatment. Wagner and other activists believe we're seeing the fruits of an exponentially increasing rate of Cesarean sections—the result of a host of well-documented hospital practices that privilege liability concerns, hospital convenience, and doctor convenience over best medical practices, time and again. "It is absolutely clear," Wagner told me, "that one of the biggest reasons for this excess [in childbirth-related deaths] is the excess Cesarean section."

There are four million births in America each year, of which 1.2 million, nearly 30 percent, are C-sections. According to global data collected by the WHO, if the C-section rate is below 10 percent, as it is in the developing world, women die at higher rates. And once C-sections pass 15 percent, as they have here in the U.S., women *also* die at higher rates, as a result of complications from major abdominal surgery. The results of this radical experiment in birthing are predictable but yet to be proven. And the American obstetric establishment would like to keep it that way.

Black women are nearly four times as likely as white women to die in childbirth.

But the equally significant explanation for American maternal mortality is probably *under*treatment. Perhaps the most notable fact in the CDC's new report is that African American women are nearly *four times* as likely as white women to die in childbirth. That is, while 9.3 white women per 100,000 died in childbirth, 34.7 African American women died. And this is a criminal disparity, one that is all the more shocking given that other racial disparities in the report were narrowing. Whether the causes are poor health, poor health care, poor insurance coverage, or—likely—all of the above, there is no excuse for the injustice that being black is a risk factor putting some pregnant women at death's door. TAP

The Hillarycare Mythology

Did Hillary doom health reform in 1993? It's time to get the facts straight about the Clinton plan and why compromise failed. Here's the real story.

BY PAUL STARR

FIVE DAYS AFTER HIS INAUGURATION IN 1993, BILL Clinton named his wife to chair a newly established President's Task Force on National Health Care Reform. From that moment, the public had the impression that Hillary Clinton and the task force under her direction were responsible for coming up with the administration's reform plan. And when that plan went down to defeat, many people assigned her a large share of the blame.

Now that Hillary Clinton is a candidate for president, the health-reform debacle is again receiving attention, this time as a basis for judging what kind of a president she might be in her own right. The trouble with such judgments, however, is that they are usually rooted in a series of misunderstandings about the Clinton health plan, Hillary's role in the reform effort, and the reasons for its failure. The mythology of "Hillarycare," as the Republicans like to call it, is only partly the result of right-wing misrepresentations of the plan as a "government takeover" and malicious personal attacks on Hillary. The press never got the story right in the first place, and recent biographies and articles about Sen. Clinton have added to the misconceptions.

By the time Hillary became involved in health-care reform in late January 1993, Bill Clinton's thinking about the problem was already well advanced. The previous September during his campaign, he had settled on the basic model for reform—a plan for universal coverage based on consumer choice among competing private health plans, operating under a cap on total spending (an approach known, in the shorthand of health policy, as "managed competition within a budget"). Though the media scarcely registered it at the time, Clinton had described this approach in a speech and referred to it in the presidential debates. Moreover, he saw health-care reform through the prism of economic policy, believed that reducing the long-term growth in health costs was a national imperative, and insisted that even while making coverage universal, health-care reform had to bring down future costs below current projections for both the government and the private economy. Among Clinton's close advisors, Ira Magaziner championed the view that these aims were achievable. When he became the director of the health-reform effort and Hillary the chair, their job was not to choose a policy, but to develop the one that the president had already adopted.

Despite all the attention it received, however, the President's Task Force—consisting of members of the cabinet and several other senior officials—proved to be useless for reaching decisions and drafting the plan. It immediately became the subject of litigation and dissolved at the end of May without making any recommendations. Bill Clinton actually never gave up control of the policy-making process, and the work fell to a small team of advisors and analysts that Magaziner directed. Beginning in March and continuing in a stop-and-go fashion until September, the decision meetings about the plan took place outside the formal structure of the task force, usually in the Roosevelt Room of the White House, and the president ran the meetings himself.

My knowledge of this process is first-hand. Magaziner first brought me into the internal discussions of health policy during the 1992 campaign after reading the manuscript of a book I had written, *The Logic of Health Care Reform* (Grand Rounds Press, 1992), which developed the idea of managed competition within a budget. As a senior White House health-policy advisor working under Magaziner, I took part in the decision meetings and presented some of the issues to the president. The first lady was an active force in these discussions, but there was never any question that the president was in charge. We took our guidance from him. That, of course, was how it should have been (who else but the president ought to make such decisions?), except that many reporters and the public thought that Bill Clinton had handed over the policy to Hillary and that she would report back to him, which was not the case.

Presidents often downplay their own direct involvement in decision making to put some distance between themselves and policies that may eventually prove to be unsuccessful. Part of the job of cabinet members and advisors is to take the blame when things go wrong. Clinton's appointment of his wife to chair the task force did not, however, create the necessary distance and deniability. Not only did the fiction of Hillary's personal responsibility for the health plan fail to protect the president at the time, it has also now come back to haunt her in her own quest for the presidency. According to

Gal With the Plan: Hillary at Johns Hopkins University in Baltimore, October 1993, touting the plan the public assumed was hers.

JOE MARQUETTE / AP IMAGES

recurrent accounts—most recently in Carl Bernstein's shoddily researched biography *A Woman in Charge*—it was supposedly Hillary's secretiveness and rigidity that led to fatal decisions about the White House health plan and political strategy. Careful reporting after the failure of the health plan showed these charges were false, but Bernstein and other writers continue to recycle them. Misunderstanding the politics behind the plan, they give a distorted account of why it was defeated. The health-reform debacle was critical in framing Hillary's public image, and despite her years of accomplishment in her own right, she still carries the burdens of that failure. It is time to get the facts right and clear the air for the discussion of health-care reform in what may be another Clinton administration.

ALTHOUGH IN RETROSPECT IT WAS CLEARLY A MISTAKE, BILL CLINTON had good reasons in his first days in office to make comprehensive health-care reform an immediate goal of his presidency and to keep direct control over the reform effort. There appeared to be exceptional political forces aligned in support of reform and strong pressures to move quickly, and these considerations argued for an accelerated timetable. Originally, the president asked for a reform plan to be ready within the first 100 days.

Yet the kind of reform that Clinton believed necessary was alien to the Washington health bureaucracy and unfamiliar to members of his own cabinet. Ironically, the same concern that would motivate so much of the opposition—distrust of the Washington bureaucracy—probably also influenced the president's decisions to locate policy development in the White House and to put his wife and Magaziner, one of his old and trusted friends, in charge. Internal conflicts over the health plan, particularly with top officials at Health and Human Services and the Treasury, would become a consuming preoccupation inside the White House. It was partly these tensions that led to persistent and damaging leaks and the appearance of disarray in the reform effort and to the countervailing efforts to maintain confidentiality and discipline that Hillary's critics have mistakenly attributed to her allegedly controlling and rigid personality.

As 1993 began, there seemed to be a historic opportunity to complete what Democrats had long regarded as the chief unfinished business of the New Deal—national health insurance. Running for a Senate seat in a special election in Pennsylvania in November 1991, Harris Wofford had come from 40 points behind to win an upset victory after making universal health coverage a central issue in his campaign. Health-care costs were increasing at double-digit rates, rising unemployment threatened health insurance coverage for many in the middle class as well as the poor, and companies in manufacturing and other industries with generous health plans for workers and retirees saw themselves at a growing competitive disadvantage. Public opinion surveys showed that by wide majorities, both business executives and the public at large thought that health care needed fundamental reform. After Wofford's victory catapulted health care into the 1992 presidential race, even President George H.W. Bush felt obliged to put forward his own program, albeit a modest one and without any provisions

for financing it. In a striking departure, both the American Medical Association and the Health Insurance Association of America endorsed a requirement (or "mandate") for employers to provide coverage. Under these circumstances, national health-care reform didn't only seem possible; it had an air of "inevitability," the editor of the AMA's *Journal* wrote in 1991.

But despite these auspicious signs, even Democrats had no positive consensus about what to do. The left wing of the party favored a Canadian-style, single-payer plan, while conservative Democrats favored market-oriented reforms without any commitment to universal coverage or caps on spending. Between these two groups were more centrist liberals, including key Democrats in Congress, who favored an approach called "pay or play" (which would give employers a choice of providing health coverage or paying a tax into a public program). As of early 1992, managed competition within a budget was just beginning to get serious attention. Sen. Bob Kerrey of Nebraska was the first major public figure to introduce a hybrid plan for national health insurance with a unified system of finance and consumer choice among private health plans.

During the 1992 campaign, Clinton had not given health-care reform top billing—his primary issue was the economy, and he probably talked more about welfare reform than about health care. But higher deficit forecasts that fall led him to change his priorities soon after the election. Abandoning his promise of a middle-class tax cut and retrenching on other measures, Clinton opted for deficit reduction in the hope that it would lead to lower interest rates and higher economic growth. The deficit forecasts also highlighted how critical it was to control the cost of health care. If health costs kept gobbling up revenue, they would make long-term deficit reduction impossible and sharply circumscribe what the new administration could accomplish in other areas. Comprehensive health-care reform therefore held more than one attraction. If reform contained health costs, it would contribute to the success of Clinton's economic program. And at a time when he was downgrading other progressive commitments, a high-profile commitment to universal health insurance would bolster his popular support, particularly among Democrats. At one of the Roosevelt Room meetings on the health plan, Clinton remarked that in 1936 the Depression had not ended, but Franklin D. Roosevelt had won reelection because he had passed Social Security and other measures. Perhaps health security could do the same for Clinton in 1996 even if his economic program did not bring results by then. Both health-care reform and the economic programs were gambles, he suggested, but he was comfortable with the odds on both of them, and he could win if either one paid off.

Part of the appeal of the approach to reform that Clinton had adopted in September 1992 was its doubly reinforced method of cost containment. The new framework would create stronger incentives for consumers and health plans to make cost- and quality-conscious choices, but it also had a fail-safe regulatory mechanism.

The basic idea was not complicated. Consumers, not employers, would choose health plans. Firms would pay into a regional health insurance purchasing cooperative (later called an "alliance" in the Clinton plan), which would offer private plans of varying types to all residents under age 65 in an area (Medicare would remain separate). The alliances would be required to offer traditional, fee-for-service insurance as well as health maintenance organizations and preferred provider plans. Benefits, copays, and other features would be standardized so as to make it easier for consumers to compare prices and get the best value for money. Health plans would have to offer coverage to everyone without exclusions of preexisting conditions, and they would be paid according to the characteristics of the population they enrolled. If a plan enrolled a relatively older and sicker population, the money it received from the alliance would be adjusted upward; if it enrolled younger and healthier members, it would get less. Many people misinterpreted "managed competition" to mean "competition among managed care plans." But "managed" as a modifier of "competition" referred to a variety of measures—open enrollment, standardized benefit packages, risk-adjusted payments to plans, independent assessment of the quality of care—intended to stop insurers from trying to cherry-pick healthy subscribers

Sales Pitcher: Talking it up in Deerfield Beach, Fla., as interested party listens.

DENNIS COOK / AP IMAGES

and to get them to focus instead on providing higher-quality service at lower cost.

The early versions of the model keyed employer contributions to a percentage of the low-cost plan, with individuals paying the additional amount for all other plans. The Clinton plan eventually called for employer contributions to cover 80 percent of the *average* premium in an alliance (though small employers would have had their obligations capped as a percentage of payroll, with the remainder made up by public subsidies). In other words, no matter what your employer paid, 80 percent of the average premium would be covered, and you'd have to pay out of pocket, dollar for dollar, any additional premium above that level.

Advocates of "pure" managed competition were confident that incentives of this kind would be sufficient to generate price competition among plans and thereby contain costs. But because the evidence on that question was ambiguous (and

many areas of the country were unlikely to have competing integrated delivery systems), the Clinton model also called for back-up regulatory controls limiting the rate of growth of the average premium in an alliance.

The general idea here was to create a workable compromise between market and regulatory approaches that could attract support from conservatives and liberals and thereby overcome the divisions that stood in the way of change. The plan would preserve a private system and expand consumer choice (under existing arrangements, even most insured employees have no choice at all about the plan their employer gives them), and it would provide broad coverage to all Americans, with strong measures to keep the costs affordable.

But the synthesis was also doubly heretical. Any reliance on private health insurance was heresy to many on the left and some in the Democratic health-policy establishment. And any regulation of health insurance rates was heresy to advocates of managed competition. In addition, Robert Rubin and other economic advisors to the president, though not wholly opposed to reform, were skeptical that any program with a broad benefit package could control costs. Even before selling his plan to Congress and the public, therefore, Clinton had to get the rest of his own government behind it.

Hillary's appointment underscored the president's personal commitment. Although she made no claim to being a health-policy expert, she had successfully led a similar effort to develop educational policy in Arkansas, and her gifts complemented Magaziner's. Besides her quick intelligence, she had the personal tact and ease in communicating with the public that would make her an ideal ambassador for the initiative, while he had organizational skills, command of detail, and imaginative boldness necessary for mastering an ambitious and complex reform.

The overall direction of policy was not Hillary's choice. She had not been present at the key meetings during the campaign when Clinton had discussed health policy with his advisors, and in the first days in the White House, she was just familiarizing herself with the approach to reform that her husband had adopted. In a meeting with me in her office during the administration's second week, she spoke of "my husband's plan" and thanked me for an article of mine, which she said was helpful in explaining the approach. Whether she fully agreed with that approach, I wasn't sure. But if she had her reservations, she put them aside and, believing strongly in the aims of reform, worked hard to achieve them. The model for reform, after all, only defined its broad outlines; literally hundreds of important questions about the policy still had to be resolved in turning it into legislation.

But the troubles of the President's Task Force began immediately. Before making the announcement, the White House had not thought to check with legal counsel about the implications of formally designating a "task force," and soon it was facing lawsuits challenging the first lady's role and demanding that the meetings be public. Under the task force, Magaziner organized some 30 "working groups" concerned with such issues as the design of the purchasing alliances and with the analysis of the plan from different angles, including costs and ethics. (I helped set up these groups and was responsible for running a "cluster" of three of them.) The membership of the working groups quickly rose to more than 500—mostly federal employees, many of them added at the request of their departments, as well as some independent experts, congressional staff (Democrats only), and state health-care officials (Republican as well as Democrat). Their meetings were intense but short-lived—they dispersed early in the spring, before the plan was written. We also conducted hundreds of meetings with representatives of different organizations that wanted to communicate their views to the White House.

This was the "secretive" process that critics of Hillary have in mind when they attack her. Compared to policy development in other administrations, it was exceptionally open and inclusive, but those very efforts to bring people in excited objections that the White House wasn't open and inclusive enough. In setting up the working groups (which were only supposed to develop preliminary options and information, not to conduct negotiations), the White House left out representatives of interest groups. It also did not invite the press to sit in on the discussions, again because they were preliminary. The interest groups and the media then created the storm of indignation that the process was secret. The real mistake was creating the task force and working groups in the first place and putting them in the vortex of publicity that Hillary's appointment guaranteed. Normally, presidents consult advisors in private without incurring any criticism. No one would have complained about secrecy if the White House had simply done business the usual way—entirely behind closed doors, without any formal external participation.

Hillary had not been present at key meetings during the 1992 campaign when Bill had discussed health policy with his advisors.

Not that what anyone wrote or said remained confidential. Some members of the working groups were only too happy to give the media copies of internal memos that they had written or received, leading to stories that typically began, "The White House is considering a proposal to …"—when, in fact, the proposal was not receiving any serious attention, which may be why its authors leaked it.

The most damaging leaks came from high in the administration. On May 3, 1993, *The New York Times* ran a front-page story headlined "Health-Care Costs May Be Increased $100 Billion a Year." Magaziner had given a few senior administration officials a series of three charts with cost estimates. The first showed the *gross* costs of three different options, with the highest costing $100 billion; the second showed the *savings*

under each of the three options; and the third showed the *net* cost. Only the first chart was leaked—and with words blanked out that would have clearly shown that the numbers were gross costs before savings.

Leaks of this kind threatened congressional passage of the president's budget and were one of the reasons for delaying final decisions about the health plan in the White House. Critics of "Hillary's task force" say it became so bogged down by its size that it couldn't meet its deadlines, but the delay had other origins. The impetus to move quickly came partly from the hope that the plan could be incorporated into the budget reconciliation bill, which under Senate rules can pass with a bare majority, not the 60 votes otherwise necessary to shut off debate. But when Sen. Robert Byrd, the guardian of Senate rules, said that the health plan couldn't go into the budget bill, there was no choice but to delay submission of health legislation until after the budget passed. And that turned out to take longer than anyone expected. The budget was finally adopted on Aug. 6 without a single Republican vote, passing in the Senate only because of Vice President Al Gore's tie-breaker. The president addressed Congress about the health plan the next month.

Clinton later told journalists David Broder and Haynes Johnson that when Sen. Byrd declared health reform couldn't go into the budget, he should have realized that it would be impossible to pass the full health plan that year. "This is entirely my mistake, no one else's," Clinton said, conceding that he should have scaled back the proposal. "I set the Congress up for failure."

The budget battle prejudiced the outcome on health-care reform in other ways, too. The health legislation would now go to Congress *after* the president had asked members of his party to cast difficult votes for tax increases, budget cuts, gun control, and other measures that many of them knew might doom their reelection chances. Once Democrats voted for one set of tax increases, persuading them to vote for an employer mandate or any other method of financing expanded health coverage was going to be difficult, if not impossible.

So why not compromise? In fact, the Clinton health plan began with a compromise, and the expectation in the White House was that it could be passed only with more compromises. When he made managed competition part of his plan in the fall of 1992, Clinton was moving toward the center right and laying the basis for a future deal with the conservative Democrats and moderate Republicans who also backed managed-competition proposals. Between January and October 1993, however, other political considerations led Clinton to tack left. Rejecting the view of his economic advisors who favored a bare-bones benefit package, he opted for broad coverage, and he also decided to include a new Medicare prescription drug benefit for the elderly, which he had promised during his campaign. The bigger the program, the tighter the cost controls would also have to be.

As I explained in these pages after the health plan failed ["What Happened to Health Care Reform?" Winter, 1995], the argument in the White House for this "bigger, tighter program" rested on two theories. The "enthusiasm theory," as I called it, held that because there would be fierce opponents of reform, we needed equally passionate supporters. We had to give them something worth fighting for, but there would have been no popular support for a bare-bones benefit package. Likewise, we would have lost the elderly if the president defaulted on his promise of prescription drug coverage. The second theory, which I called the "bargaining chip" or "onion" theory (phrases taken from strategy sessions at the White House), held that the administration should go to Congress with a big program intentionally including elements that could be bargained away later: "Some benefits could be cut, the caps relaxed, the alliances scaled back or sacrificed entirely. Layers of the onion could be peeled off, but we would still retain the core of the program." Because only a deal with conservative Democrats and moderate Republicans could provide the votes, it was just a question of when that move back toward the center right would take place. But besides hoping to generate public enthusiasm, the White House also deferred to congressional Democrats who cautioned against making premature concessions and claimed they could best negotiate the final deal themselves.

The most damaging leaks came from high in the administration and they threatened passage of the president's budget.

This strategy did not reflect an unthinking, blind rigidity on the part of the Clintons. It just didn't work—in fact, it failed disastrously. When the debate began, it was reasonable to expect a negotiated deal in Congress; Republicans had introduced their own proposals for health-care reform, and a group around Sen. John Chafee of Rhode Island seemed amenable to compromise. But the whole political climate became toxic; Clinton could not get a single Republican vote for his 1993 budget, and Whitewater broke at the beginning of 1994. All the elements of the conservative coalition, from the anti-taxers to the social conservatives, mobilized against the Clinton health plan and against the Clintons personally, while liberals were ambivalent and Democrats in Congress were divided. Newt Gingrich, Grover Norquist, Bill Kristol, and other figures in the conservative movement saw health reform as an ideological threat because if it succeeded, it might renew New Deal beliefs in the efficacy of government, whereas a defeat of the health plan could set liberalism back for years. Tom DeLay pressed business organizations such as the U.S. Chambers of Commerce, which had been edging toward a deal, to reverse course. Soon Republicans were backpedaling from their own health-reform proposals. The Republican Senate minority leader, Bob Dole, withdrew his first bill and substituted a more limited one and then withdrew that one, too. It was not just the Clinton plan that was stymied; every effort in Congress

to find a compromise failed. While George Mitchell, the Senate majority leader, was drawing up a compromise plan in the summer of 1994, Kristol wrote a memo to Republicans advising, "Sight unseen reject it." Near the end, Sen. Bob Packwood told his Republican colleagues that after killing health-care reform, they had to make sure their fingerprints weren't on the corpse. As I wrote in my postmortem in these pages, "The Republicans enjoyed a double triumph, killing reform and then watching jurors find the president guilty. It was the political equivalent of the perfect crime."

DURING THE BATTLE OVER THE CLINTON PLAN, conservative talk radio hosts and insurance-industry advertising on television conjured up lurid fears that the federal government would control every detail of medical care. But it wasn't only the right-wing noise machine that stirred up panic with outright fabrications. *The New Republic* carried an article that charged the Clinton bill would "prevent you from going outside the system to buy basic health coverage you think is better. The doctor can be paid only by the plan, not by you." In fact, one of the first provisions of the bill stated: "Nothing in this Act shall be construed as prohibiting the following: (1) An individual from purchasing any health care services."

In a January 1995 *Atlantic* article, "A Tide of Misinformation," James Fallows patiently went through the whole catalog of distortions about the Clinton health plan—that it had been "hatched in secret," got bogged down and delivered too late, constituted a government takeover of health care when the problem was "solving itself," and was developed and presented in so politically naive and doctrinaire a way that the administration missed the chance for bipartisan compromise. But, Fallows notwithstanding, the Hillarycare myths live on even in the same magazine. In an article last year, *The Atlantic*'s Joshua Green repeated many of the old canards about the task force and Hillary that Fallows had shown were wrong.

Like Green's article, Carl Bernstein's biography argues that Hillary doomed the health plan because of her secretiveness and rigidity. Bernstein, who can't get the basic facts right, supposes that Hillary was entirely in control. He writes that "by the time Hillary had begun consulting with experts, she already knew where she wanted to go" (as if her husband had not earlier made that decision); that the plan would have replaced Medicare; and that Hillary's "message was unambiguous: she did not want negotiations that would end in compromise" and she "rejected [Bill's] attempts at getting her to compromise." In fact, Bill Clinton made the very decisions about the health plan that Bernstein attributes to Hillary. He chose to submit an ambitious program to Congress rather than a more limited one, hoping to make compromises later. There were repeated approaches to the Republicans, but as Hillary told Fallows, "Every time we moved toward them, they would move away." As time was running out, in September 1994, Hillary did have her reservations when the president gave his approval to Sen. John Breaux of Louisiana to make one concession after another to get Republican support, but it turned out she was right. The Republicans were the ones who for political reasons did not want negotiations to end in compromise. And that gamble paid off for them in the 1994 elections.

THIRTEEN YEARS LATER, THE PROBLEM HAS NOT SOLVED ITSELF. Health-care costs have continued to race upward. From 2000 to 2006, premiums for family health coverage increased 87 percent, four times faster than general inflation and wages. The number of uninsured hit a record high last year, at 47 million Americans. And health-care reform is back in the center of national debate.

Curiously, some liberals now hold the failure of the reform effort in 1993–1994 against Sen. Clinton, arguing that in reaction to that debacle she has become all too flexible—too accommodating to the health-care industry and gun-shy about fighting for universal health care. This year she is giving three speeches about health-care reform, dealing successively with quality of care, cost containment, and universal coverage. (As of press time, she was about to give the last of these; a separate analysis will appear online at www.prospect.org. I haven't spoken with her since she was elected to the Senate and have no involvement in her campaign.) The general tenor of her rhetoric is consensus-oriented—and necessarily so, given the highly polarized public perceptions of her history on the issue. Surely one political lesson from the earlier struggle is to frame a proposal that creates the broadest possible support for reform and splits the opposition.

In health care and other areas of domestic policy, what Hillary Clinton might accomplish as president will depend on whether Democrats can increase their slim majorities in Congress. More than any other candidate, she has to set achievable goals in health care—and, if elected, achieve them. As a practical matter, the scale of the first steps in health-care reform should probably be calibrated to fit into a budget reconciliation bill. But those first steps need not be insignificant. Clinton's 1993 budget quietly included an expanded earned-income tax credit that represented the biggest anti-poverty measure since the 1960s. A 2009 (Hillary) Clinton budget that turned the State Children's Health Insurance Program into the foundation of universal health coverage for children would be a victory of no small measure. And, yes, as Republicans fear, it just might give Americans confidence that their government could guarantee health care for all.

I'm confident of one thing. The first time around, Hillary took the blame for her husband's plan. As president, she'd be making the decisions herself. **TAP**

More than any other candidate, Hillary Clinton has to set achievable goals in health care—and, if elected, achieve them.

The Bubble Economy

The financial meltdown is the logical consequence of deregulation. Will we reverse field in time to prevent another 1929?

BY ROBERT KUTTNER

We have all been here before.
—Crosby, Stills, Nash, and Young

THE FEDERAL RESERVE IS STILL STRUGGLING TO contain what is already the most severe credit contraction since the Great Depression. Yet in all of the press coverage, commentators have scarcely acknowledged that this old-fashioned panic is a child of deregulation. During the past decade, the financial economy has repeated the excesses of the 1920s—too much borrowing to underwrite too many speculative bets with other people's money, too far beyond the reach of regulators, setting up the entire economy for a crash.

The sub-prime mess, the huge risks taken by hedge funds, and the conflicts of interest that led to Enron and kindred scandals, are all the consequences of serial bouts of financial deregulation. Since the 1970s, in the name of free-market efficiency, Congress and presidents of both parties repealed key protections put in place by the New Deal. But the main effect has been to engineer windfall profits for financial insiders, replace real productive innovation with financial engineering, shift wealth from families to corporations, and put the entire American economy at ever greater risk.

As a result, the economy has increasingly come to depend on asset bubbles—overvalued stocks, overpriced real estate, and dubious financial instruments like derivatives. The bubbles have been pumped up by speculative borrowing. The borrowing feeds on itself, as it did in the 1920s, since an inflated asset is handy collateral for still more borrowing. Alarmingly, these bubbles turn out to be interconnected—hedge-fund profits reliant on high-yield sub-prime mortgages, and a soaring stock market bid up by risky private equity deals—so if the air goes out of one bubble, it goes out of others. That's why the crisis is so hard to manage, even by a very aggressive Federal Reserve.

Supposedly, we can't have depressions anymore, for three reasons. First, the Fed has gotten far more sophisticated about containing financial panics. In recent weeks, the Fed's and the world's other central banks have poured hundreds of billions of dollars into credit markets so that risk-averse banks keep lending against shaky collateral. This in turn keeps the price of that collateral—bonds, stocks, real estate—from sinking still farther in a 1929-style meltdown. However, once a bubble bursts, low interest rates can't necessarily revive it; the Fed can cheapen money, but it can't make anxious creditors put it at risk.

The other story we all learn in Economics 101 is that ever since Franklin D. Roosevelt, the volatility of a market economy has been steadied both by regulations and by the ballast of "automatic stabilizers"—unemployment insurance, public spending, Social Security, and so on. Meanwhile, the regulation contains financial bubbles before they start. But both the regulations and the automatic stabilizers have been seriously weakened, leaving only the Fed, to whose limitations we will return shortly.

Meanwhile, back in the real economy, most people are working longer hours for flat or declining incomes. Since 2000, productivity is up 19 percent, but median earnings are down. Ordinary people, and the larger economy, have come to depend on inflated prices of both real estate and stocks and on increasing debts against those assets as a substitute for rising incomes. Household savings rates are currently negative, meaning that new debt exceeds new savings. Home equity as a percentage of the value of the house is at a record low as people borrow against their homes for living expenses, while credit-card and tuition debt are at record highs. In short, the increasing financial insecurity and inequality for ordinary people, and the increasing risk of collapse now afflicting financial markets, are two sides of the same coin. And that coin is the willful dismantling of managed capitalism.

DEREGULATING OUR WAY TO DEPRESSION

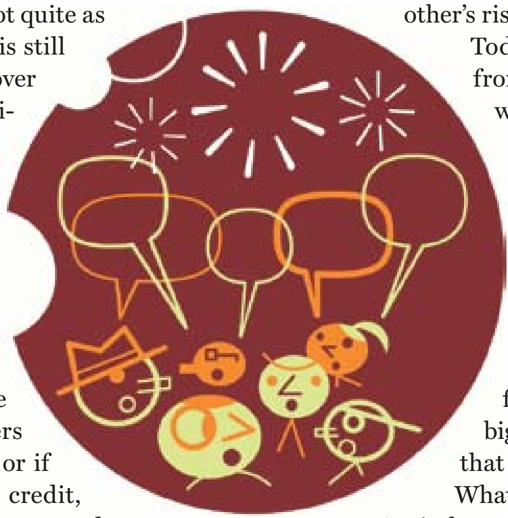
The current crisis was triggered by the sub-prime mortgage panic, but it might as easily have been sparked by a hedge-fund collapse or a run on the dollar. The vulnerabilities are systemwide. Since it began with sub-prime, let's start there.

For decades, real-estate prices have appreciated faster than incomes. This could not go on forever, because a house is worth only what some buyer can afford to pay for it. Lately, housing prices got an extra nudge from artificially cheap mortgages extended to people who didn't really qualify for credit. Mortgage companies could make these sketchy loans because some

other speculator was willing to take the loans off their books, and because they expected housing prices to keep rising, adding a cushion of equity. Thanks to deregulation, the entire game operated largely beyond the purview of bank examiners.

When the housing market turned soft, mortgages started going bad, and investors headed for the exits. The stocks of mortgage companies plummeted; the banks that lent them money took hits; hedge funds that invested in their bonds lost money, too—a chain of events rather like the poem about the war lost for lack of a horseshoe nail ("For want of a nail, the shoe was lost, for want of a shoe, the horse was lost, for want of a horse, the rider was lost ..."). This variant on The House That Jack Built was a house of cards.

Thanks to deregulation, these several realms are interconnected. Inflated assets in real estate, the bond market, hedge funds, and private equity feed on each other. And the most important bubble is the stock market itself. The ratio of stock prices to corporate earnings is not quite as high as it was in 1929 or 2000, but it is still very high by historic standards. Takeover deals executed by hedge funds and private equity companies use borrowed money to pay a premium for companies they take over. That inflates the stock price. They hope that by selling off pieces of the company after cutting costs (mainly wages), they can make a quick bundle. But this whole business strategy is based on stock prices continuing to rise. If the cycle goes into reverse, and the deal makers have no buyers at their desired price, or if their financiers stop advancing them credit, the game stops and the stock market sags. Today, the game has certainly slowed: According to research firm Dealogic, the value of takeover deals fell from $695 billion in April and $579 billion in July to $222 billion in August.



Each of these bubbles grew thanks to a very lax regulatory environment combined with very low interest rates. Like every such bubble, our current ones could continue only as long as investors had confidence that prices would go still higher—just as they did in 1929.

HEDGED IN

The hedge-fund story has close parallels to the sub-prime mess. A hedge fund is a nominally private investment fund designed to make very risky financial bets and reap unusually high returns. Hedge funds are free from the disclosures required of ordinary investment companies, thanks to a loophole that exempts narrowly-held funds that serve very wealthy people, no matter how large the fund or how risky its strategies.

As long as hedge funds were small players, some very smart strategists could reap very large returns by exploiting obscure pricing anomalies in financial markets, with little risk to the larger system. But in the booming 1990s, hedge funds exploded. By 2006, hedge funds and their unregulated cousins, private equity companies, were generating a third to a half of the business executed on Wall Street, and hedge funds held an estimated $1.5 trillion in assets.

In the low-yield environment of the post-2000 crash, everyone was hungry for higher returns. Pension funds, university endowments, and other traditionally prudent investors began to pour their money into hedge funds to get higher yields, driving the funds to make ever more dubious deals, or deals that involved improper insider trades or conflicts of interest, to satisfy investors and keep the money coming in.

Not surprisingly, hedge funds ran into a Lake Wobegon problem: Everybody can't be above average. By 2003, some hedge funds were still producing outsized returns, but the typical fund was no longer even beating the market averages. As the markets discovered in the collapse of August 2007, a lot of hedge funds using sophisticated computer models were making very similar bets. Rather than offsetting each other's risks, they were reinforcing them.

Today, hedge funds are being squeezed from both sides. Many of their investors want out, and a lot of their banks have stopped advancing them credit. The only thing stopping a hemorrhage of investor withdrawals are rules limiting how quickly investors can take their money and run. As their balance sheets worsen, hedge funds are forced to sell off assets, often for big losses. Several have taken big hits. A few smaller ones have gone bust. But a big hedge-fund collapse is the other shoe that hasn't yet dropped.

What would that be like? When Long Term Capital Management, a leading hedge fund of the roaring 1990s, collapsed in 1998, the Federal Reserve went to extraordinary lengths to prevent an economy-wide credit panic. Hedge funds use so-called derivatives to leverage their own capital at ratios unthinkable to ordinary investors—20 or even 50 to one. When LTCM suddenly found that its computer models had guessed wrong, so many banks were owed so much money by LTCM that if the fund simply ceased operations, the losses would have wiped out the capital of New York's major banks. So the Fed, technically exceeding its statutory authority, leaned on the big banks to simply buy the fund outright, liquidate its positions in orderly fashion, and eat about $4 billion in losses. Because hedge funds are unregulated, and LTCM was doing business with so many different banks, neither the Fed nor the other regulatory agencies had any idea of the degree of risk LTCM posed until the fund blew up and the Fed had to contain the damage.

In the nine years since LTCM collapsed, the industry has become hydra-headed. More than 9,000 hedge funds have opened up shop, and the kind of rescue that the Fed mounted in 1998 would not be possible today, according to one former senior official of the Fed, because the risks are now so diffuse. In principle, the authorities can monitor hedge funds by keeping tabs on the books of the so-called "counterparties"—the

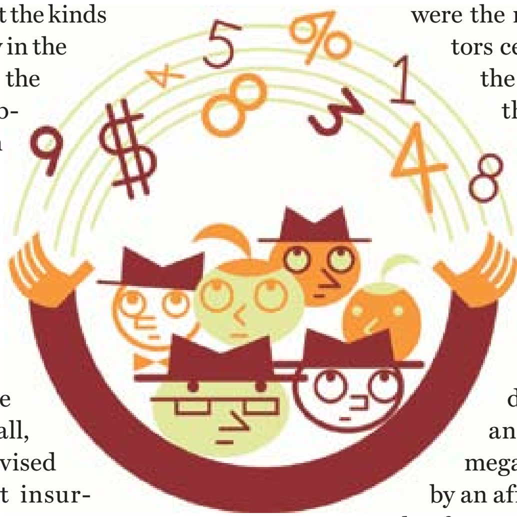
ILLUSTRATIONS BY GREG MABLY

banks that underwrite their activities. But bank examiners have not been able to keep up with hedge-fund innovations. The industry is a financial black box.

REPEALING ROOSEVELT

Hedge funds, private equity companies, and the sub-prime mortgage industry have two big things in common. First, each represents financial middlemen unproductively extracting wealth from the real economy. Second, each exploits loopholes in what remains of financial regulation.

The Roosevelt schema of financial regulation was built around two principles—disclosure and outright prohibition of inherent conflicts of interest. All publicly listed and traded companies were required to disclose to the Securities and Exchange Commission and to the public all financial information deemed "material" to investor decisions. The New Deal also prohibited stock trading based on insider information, and it created structural barriers against the kinds of temptations that ruined the economy in the 1920s. The most notable of these was the 1933 Glass-Steagall Act, which prohibited the same financial company from being both a commercial bank and an investment bank.



The Glass-Steagall wall was devised to prevent a repeat of the 1920s' scams, in which banks made speculative investments, turned the debts into securities, and sold them off to unsuspecting investors with the blessing of the bank. With Glass-Steagall, commercial banks were tightly supervised and given access to federal deposit insurance, to keep savings secure and prevent runs on banks. Investment banks, meanwhile, were not government-guaranteed and were free to do more speculative transactions for consenting adult customers. But Roosevelt's newly created SEC subjected securities markets to much tighter structures against self-dealing and insider conflicts of interest.

The New Deal also acted on the home mortgage front. Millions of people were losing their homes and farms to foreclosures, both creating human tragedies and deepening the Depression. In response, the Roosevelt administration literally invented the modern system of home finance. Pre–New Deal mortgages had typically been short-term notes, where most of the principal was due and payable at the end of a brief term, often just three to five years. The New Deal devised the modern long-term, fixed-rate, self-amortizing mortgage. Congress created the Federal Housing Administration to insure these mortgages and win their acceptance among lenders. It also created the Federal National Mortgage Association to sell bonds and buy mortgages, and thus replenish the funds of local lenders. And the New Deal devised a system of federal home loan banks to supervise and advance capital to savings and loan institutions. Deposit insurance was extended to government-supervised mortgage lenders.

The system worked like a watch, combining sound lending standards with expanded opportunity. The rate of home ownership rose from 44 percent in the late 1930s to 64 percent by the mid-1960s. Savings and loan associations almost always ran in the black, there were no serious scandals, and the government deposit-insurance funds regularly returned a profit.

LOOK MA, NO HANDS

If you fast forward to 2000, much of this protective apparatus has been repealed. Regulators who didn't believe in regulation and a compliant Congress have allowed financial engineers to evade what remains. In the 1980s, regulators began allowing exceptions to Glass-Steagall. In 1999, Congress finally repealed it outright, permitting financial supermarkets like Citigroup to operate any kind of financial business they desired, and profit from multiple conflicts of interest. The scandals that pumped up the dot-com bubble of the late 1990s, as well as the most flagrant cases like Enron, and the crash that followed, were the result of the SEC and the bank regulators ceasing to police conflicts of interest. In the scandals of the 1990s, corporate CEOs, their accountants, and stock analysts working for their bankers, all conspired to puff up corporate balance sheets and pump up stock prices on which executive bonuses depended. This is a little harder today, thanks to the honest accounting requirements of the 2002 Sarbanes-Oxley Act (which the Bush administration hopes to water down). But the same kinds of conflicts and potentials for abuse exist when a mega-bank underwrites a leveraged buyout by an affiliated hedge fund, and then hypes the sale of securities when the fund is ready to sell the company back to the public.

Meanwhile, the once staid and socially directed system of providing home mortgages was seized by financial wise guys and turned into another casino. In the early 1980s, exploiting the Reaganite theme of government-bashing, the savings and loan industry persuaded Congress to substantially deregulate S&Ls—which then speculated with government-insured money and lost many hundreds of billions, costing taxpayers upward of $350 billion in less than a decade.

In 1989 when Congress reregulated S&Ls, the financial engineers just did another end run. Mortgage companies that were exempt from federal regulation came to dominate the mortgage lending business. This loop of the story begins in 1968 with the privatization of Roosevelt's Federal National Mortgage Association. In the wake of that move, investment bankers invented a daisy chain known as "securitization" of mortgage credit. Through securitization, a mortgage broker could originate a loan, sell it to a mortgage banker, who would then sell it to an investment bank like Salomon Brothers, who in turn would package the mortgages into securities. These were then evaluated and coded (for a fee) by private bond-rating agencies according to their supposed risk, and sold

off to hedge funds or pension funds. Each of these worthies took their little cut, raising the cost of credit to the borrower. Rather than diffusing risks (a course that economic theory urges on a prudent capitalist nation), however, securitization concentrated them, because everyone was making the same bet on real-estate inflation.

In the sub-prime sector, you could get a loan without a full credit check, or even without income verification. The initial "teaser" rate would be low, but after a few years the monthly payment would rise to unaffordable levels. Both borrower and lender were betting on rising real-estate prices to bail them out, by allowing an early refinancing. But when a soft housing market dashed those hopes, the whole sub-prime sector crashed, and the damage spilled over into other financial sectors.

THE GREAT ENABLER

Ever since late July when the credit crunch in sub-prime mortgages became an economy-wide problem, all eyes have been on the Federal Reserve. None other than Milton Friedman, no friend of government meddling in the economy, blamed the Great Depression on the failure of the Fed in the 1930s to intervene aggressively enough. Financial writers have taken to quoting Walter Bagehot, the great financial journalist and commentator of the Victorian era, who correctly counseled that in a financial panic, the job of the lender of last resort is to flood the system with liquidity. This is what the Fed, somewhat belatedly, has been contriving to do.

At first, Chairman Ben Bernanke was reluctant to move too quickly, lest he signal that irresponsible speculators would be bailed out. Then, after pleas from Wall Street became urgent, and credit markets began freezing up in an old-fashioned panic, Bernanke moved.

In mid-August, the Fed flooded the financial markets with cheap money, in order to induce panicky creditors to keep lending and prevent an asset meltdown. Though the Fed's target rate on overnight inter-bank loans (the "federal funds" rate) was kept at 5.25 percent to avoid a sense of desperation, the actual rate fluctuated between 4.5 and 5 percent for several days, thanks to the tens of billions that the central bank poured into the markets.

Then, when that move failed to calm the markets, the Fed took the additional step of reducing the discount rate, the interest rate charged on money that banks borrow directly from the Fed itself. At this writing, the Fed is universally expected to cut the federal funds rate at its next scheduled meeting Sept. 18. The only question is how much.

How aggressively the Fed should move has been the subject of extensive commentary. If the Fed moves too slowly or doesn't cut enough, it ends up playing catch-up behind an advancing panic. If it moves too quickly or too generously, it just invites the next round of speculation with cheap money, and in passing might erode confidence in the none-too-robust dollar. But all of this commentary misses the larger point: If monetary policy is the only tool the government has at its disposal, the Fed can't possibly solve the larger crisis (or prevent the next one) by using interest rates alone.

Indeed, until Congress dismantled financial regulation, the Fed was not called upon to mount these heroic rescues, which have become so common in recent years. Until the 1960s, the central bank could keep interest rates low, confident that they would underwrite the growth of the real economy rather than risky financial speculation, for the simple reason that entire categories of speculation did not exist.

But during the past quarter-century, as deregulation has turned the economy into a casino, the Federal Reserve has had to mount major rescues at least six times. In the early 1980s, it bailed out the big New York banks, some of which lost more than the total amount of their capital in failed speculative third world loans; the money-center banks would have been adjudged insolvent if the Fed hadn't bent its usual capital-adequacy rules. Next, the Fed poured huge quantities of liquidity into financial markets after the stock market crash of 1987, in which the market lost more than 20 percent of its value in a single day. The Fed intervened again on several occasions after speculators destabilized several third world currencies and economies from Mexico to Malaysia. The Fed cleaned up after the aforementioned Long Term Capital Management collapse. It flooded markets with money after the dot-com crash and the attacks of September 11, and most recently in the credit crunch of summer 2007.

Indeed, markets have become so reliant on the Fed's bailouts that they even have a term for it—"the Greenspan put." A put is a financial term meaning a right to sell a financial security at a predetermined price. The knowledge that the Fed would cheapen money in a crisis reassured speculators that they could always unload their paper. That awareness also influenced financial insiders to behave more recklessly.

By bailing out traders who are too big to fail, the Fed has become the chief enabler of a dangerously speculative economy.

The point is not that the Fed should turn its back when financial markets are on the verge of replicating the Great Crash. The point is that the Fed has become the chief enabler of a dangerously speculative economy. It is simply not possible to get the right balance of financial prudence and financial liquidity using monetary policy alone. That's why we once had a more carefully regulated economy.

The Fed, as the designated lender of last resort, does have more arrows in its quiver than monetary policy. It has certain regulatory powers—but has been loath to use them. For example, the Fed has residual powers to crack down on the credit terms of sub-prime lenders who sell mortgages in financial markets (virtually all of them). For the better part of a decade, the late Federal Reserve Governor Ned Gramlich, who was the Board of Governors' most expert member on housing and mortgage markets, warned Chairman Alan Greenspan about

lowered credit standards and the risks of a housing bubble.

Greenspan, however, figured markets could police themselves and declined to act. The Fed could also have weighed in on the side of tighter regulation and disclosure standards for highly complex and risky over-the-counter derivatives, which are often the basis for hedge-fund strategies, and which have very shallow markets in the event of a credit crunch. But Greenspan repeatedly testified that he believed derivatives improved market liquidity and needed no regulation.

As we go to press, the current crisis is far from resolved. The nation's largest mortgage lender, Countrywide Financial, is tottering and has just laid off 12,000 employees. Foreclosures will mount as some two million more adjustable-rate mortgages are scheduled for rate hikes this year. All but the most blue-chip users of credit are finding money more expensive and harder to come by, even with the Fed easing the nation's overall monetary policy. And job generation has shuddered to a halt.

As markets reprice dubious assets, the interconnection of the several asset bubbles is becoming more painfully evident. The volume of takeover deals, which had pumped up hedge-fund profits and the larger stock market, is shrinking. Bank profits, like those of their hedge-fund and mortgage company customers, are taking big hits. Many exotic and unregulated financial products, with shallow trading markets, are difficult to value. Some collateralized debt obligations are selling at 7 cents on the dollar, and others are not selling at all. This broad financial unwinding incurs losses for investment banks, hedge funds, private equity firms, and those who invested in them. It creates a downward drag on share prices and eventually on the broader economy. Regulators are hesitant to press banks to mark down their assets to their current trading value lest honest bookkeeping trigger a deeper crisis of confidence.

In a debt-deflation, owners of overvalued assets are forced to sell into a declining market. It's as if the entire economy faces a margin call.

In the economic tricycle of monetary, regulatory, and fiscal policy, the government today is trying to run on one wheel. Not only is regulation moribund but the use of fiscal policy to stimulate the economy through government spending in the event of a downturn has also become moot, because we are in an era of permanent deficits. In the aftermath of 9-11, the Bush administration promoted tax cuts for the rich, both as an end in itself and for the sake of economic stimulus. Then, with the Iraq War, big budget deficits became the norm. It took chronic deficits coupled with cheap money to achieve even a tolerable rate of growth. Now, with the risk of a recession looming, neither party is talking about serious public outlay to complement the spending of tapped-out workers and consumers, leaving the highly risky course of cheap money and asset inflation as the only strategy for stimulating the economy.

HOW LOW IS DOWN?

Watching the turmoil in the financial markets, a worried friend recently asked me to define the difference between a recession and a depression. Probably the classic explanation of a depression is the economist Irving Fisher's celebrated 1933 article, "The Debt-Deflation Theory of Great Depressions," which was updated, interestingly enough, in 1983 by a young Princeton economist named Ben Bernanke.

An ordinary recession is a cycle of economic contraction that either cures itself when prices drop and buying resumes, or is cured by government acting to stimulate the economy through lower interest rates or increased public deficit-spending, or both. But in a great depression, as Fisher explained, the value of assets sinks below the value of the debt on those assets. A debt is fixed unless the debtor can find relief, while the value of assets varies according to the market's confidence. If you paid $400,000 for a house with a $350,000 mortgage, and the value of the house drops to $300,000, you are in big trouble—particularly if you stretched to buy the house and were hoping to refinance, even more so if you need to sell the house. Same problem if you borrowed money to buy shares of a stock, and its value sinks instead of rises. In a capitalist economy, an asset is worth only what someone is willing to pay for it. If no buyer materializes, the asset is literally worthless.

In a debt-deflation, a financial chain reaction sets off a general depression. Owners of assets—stock shares, bonds, houses, farms—either conclude that prices have peaked and it's time to bail, or they are caught by falling prices, asked to produce collateral, and are forced to sell into a declining market. Sellers overwhelm buyers, reducing the value of assets overall and intensifying the collapse. It's as if the entire economy faces a margin call and goes into fire-sale mode.

The whole credit system can seize up because suddenly markets are short of buyers even for blue-chip securities that are ordinarily considered sound. Low interest rates can't fix that problem when too few people have the confidence to lend, borrow, or buy. In the 1930s, economists analogized the problem to "pushing on a string."

By the time the dust settles, demand has taken a huge hit, and the credit crisis has spilled over, causing businesses to go

bust, banks to fail, workers to lose their jobs, and consumers to tighten their belts, further shrinking demand and deepening the depression. In the 1930s, even Roosevelt's heroic measures got the economy only partway into recovery. It took the massive government borrowing and public spending of World War II to finally repair the wreckage of 1929.

Typically, this debt-deflation syndrome is set off when excessive euphoria and speculative borrowing bid up prices to unsustainably high levels—creating a bubble. When some random event leads the market to doubt whether those prices can be sustained, the psychology goes into reverse, and panic-selling ensues.

Fisher's description is as chillingly fresh as today's financial pages. The epic example, of course, was the speculative frenzy of the 1920s, stimulated by conflicts of interest on the part of Wall Street insiders. In more recent cases where a bubble burst, such as the LTCM affair or the dot-com bust, the Fed was able to contain the wider damage. But if the entire economy is an asset bubble, it remains to be seen whether the current crisis is more like those other containable panics, or more like 1929.

THE POLITICAL ECONOMY

Politically, this credit crunch is one more blot on the Bush administration, and the broader corporate ideology for which it stands. Senate Banking Committee Chairman Chris Dodd has been meeting with top officials of the Fed and the Treasury, urging hands-on action to contain the crisis, but crisis management is only part of any policy. The Democrats are also pressing the administration to allow the Federal National Mortgage Association to refinance some at-risk mortgages, both to prevent the personal tragedy of foreclosures, as Roosevelt did in the 1930s, and to stabilize the mortgage sector and, by extension, credit markets generally.

Too few politicians are connecting the dots to the wider failure of deregulation, because too many were complicit in its enactment. House Financial Services Chairman Barney Frank, to his credit, plans hearings through the fall on the crunch's wider implications. The Republicans, meanwhile, are still calling for more deregulation, on the grounds that the Sarbanes-Oxley Act enacted in the wake of Enron and other scandals is onerous to corporations. America should be having a great debate on the need to restore managed capitalism, and so far we have just the barest beginnings of one.

It is possible that we will dodge this bullet (as it is possible that the Red Sox will win the World Series again). In the rosiest scenario, the Fed will do its job just right. Interest rates will be set low enough to restore confidence, but not so low as to trigger a run on the dollar or to invite still more speculation; the stock market will find a sustainable bottom of, say, the Dow at 12,000; the mortgage industry will get a well deserved haircut, but the wave of foreclosures will be contained, and the great game will continue. But this assumes that you can let a little air out of a bubble, and bubbles have an unfortunate habit of popping. If the broader economy does avoid catastrophic damage this time, the worst outcome of all would be if Congress just ignored the escalating systemic risk. **TAP**

The Fence to Nowhere

More than ever, we need to craft an accord on migrant workers.

BY ALEJANDRO PORTES

EARLIER THIS YEAR AS THE IRAQ CRISIS DEEPENED with no end in sight, an administration in disgrace sought to score some kind of legislative victory elsewhere. Immigration reform was a good candidate since a coalition of both the economic right, interested in abundant migrant labor, and the moderate left, interested in human rights and ending migrant exploitation in the workplace, could overcome the cultural right's intransigent opposition to immigration reform. Accordingly, the Bush administration teamed with liberal Senate Democrats to craft a bill that would provide a path to legalization for the estimated 10 to 12 million unauthorized immigrants already in the country, as well as stem the flow of immigration through additional border enforcement and the creation of a temporary labor entry program. The Bush proposal ultimately failed—but the challenge of reform is still with us.

Congress' attempts to grapple with the problem of immigration—"our broken borders," as CNN's Lou Dobbs puts it daily—were dominated by the agenda of the radical cultural right. As articulated by Harvard professor Samuel Huntington and given popular expression by Dobbs and other media pundits, the radical right's point of view has four parts. First, illegal immigrants "invade" the United States against this country's will. Second, they take jobs away from Americans and lower their wages. Third, they bring undesirable cultural and linguistic traits that imperil American culture as well as the hegemony of English. And finally, the best way of dealing with illegal immigration is to suppress it by militarizing the border and, if necessary, erecting a fence.

Each of these points is demonstrably wrong.

Unauthorized labor migrants come not only because they want to but because they are wanted, if not by everyone, at least by a large number of employers and firms in labor intensive industries. That demand—in agriculture, construction, low-tech manufacturing, and services—is not only strong but growing. Declining domestic fertility leads to slower labor-force growth; an increasingly educated American workforce is reluctant to accept menial jobs; and industry desires cheaper workers. A recent report by the Congressional Budget Office called this labor bottleneck one of the main challenges confronting the future of the American economy.

The menial jobs that employ unauthorized immigrants typically pay above minimum wage. Even so, few Americans can be found to harvest fruit, dig ditches, wash dishes, clean hotels, and perform myriad other humble tasks. In North Carolina, the annual harvest requires about 150,000 agricultural workers. In a recent year, 6,000 openings were reserved for U.S. workers at $9.02 per hour. A total of 120 applied, 25 showed up to work on the first day, and none finished the harvest. The story of unreliable native-born fieldworkers routinely repeats itself throughout the country at harvest time. The statement that migrant manual workers "take jobs away from Americans" is, to a large extent, a myth.

It is true that in sectors like unskilled construction and hotel services, many employers prefer immigrants to native-born workers because of their willingness to perform the same jobs for lower, or, at least, not increasing, pay. However, if many labor intensive firms were to sufficiently raise wages—say to $25 an hour for harvest work—to attract a declining native-born labor force, they would have to raise prices beyond consumer tolerance or they would themselves go out of business. The continued existence of such firms—farms, ranches, restaurants, landscaping and gardening businesses, garment factories, and many others—generates, in turn, spin-off effects in the form of better-paid clerical, administrative, and government service jobs that are attractive to native-born workers. Migrant labor thus ends up creating employment opportunities for native-born workers in a number of clerical, supervisory, and governmental jobs.

Studies by economists and sociologists alike have consistently failed to show a significant direct effect of migrant labor on the employment rates and income levels of domestic groups, including African Americans. Instead, studies by immigration scholars Frank D. Bean, Gillian Stevens, Michael J. Rosenfeld, and Marta Tienda, among others, point to a pattern of labor market segmentation in which undocumented immigrant workers crowd at the bottom of the market in menial service and low-paid industrial jobs, while domestic workers predominate in higher-paid clerical and administrative occupations. The spin-off effect of immigration in stimulating the growth of higher-paid occupations for domestic workers is entirely neglected by the nativists.

COMPARED TO FRANCE, GERMANY, BRITAIN, AND OTHER NATIONS that attract immigrant workers, the United States has nothing like the cultural clashes roiling Western Europe. As our largest source of manual foreign workers, not only is Mexico geographically contiguous to the United States, it is a Western nation with numerous cultural ties to its northern neighbor.

Once Across, You Can't Come Back: The fence, from its Tijuana side

GUSTAVO GRAF / BLOOMBERG NEWS / LANDOV

Mexico is a Catholic country, Spanish is a world language with multiple affinities to English, and most Mexicans have no resistance to learning English. Poorly educated immigrants may have difficulty learning English, but the evidence shows that they certainly try. Among their offspring, however, English fluency is nearly universal. Indeed, what becomes "endangered" in the second generation is the capacity to speak Spanish with fluency. Studies of the Hispanic second generation show that while over 98 percent of its members are fluent in English, only about a third (35 percent) retain fluency in Spanish.

Knowledge of Spanish is a valuable resource in the modern world that many educated Americans painstakingly strive to acquire. Mexican-American children have this skill as a birthright, yet the majority lose it to the pressures of conforming to a monolingual culture. Contrary to Huntington's assertions, there is no "Hispanic challenge." In California and Texas, large numbers of Mexican immigrants enroll in English classes, with many schools having long waiting lists. These Hispanic immigrants have seldom mobilized politically, and then, chiefly in reaction to the immediate threat of criminalization and deportation, as they did in California in 1994 when the right sponsored a ballot initiative to bar undocumented immigrants from receiving public services, and in 2006 in the wake of the passage of HR 4437, the harshly restrictionist Sensenbrenner Bill, which would have criminalized both unauthorized immigrants and those who assist them. It was passed by the House, gave rise to massive protests by immigrants and their supporters in a number of U.S. cities, and ultimately died in the Senate.

AFTER MORE THAN THREE DECADES OF DEALING WITH UNAUTHORized immigration as a police problem and spending billions of dollars on the militarization of its southern border, the United States has precious little to show for its efforts. Under pressure from the cultural right, the U.S. Border Patrol has grown to become the largest arms-bearing branch of the federal government, apart from the armed forces themselves. Still, the unauthorized flow continues and even grows year after year. Back in 1994, sociologist Thomas Espenshade estimated a 30 percent probability of apprehension during any border-crossing attempt. Since apprehended immigrants sent back to Mexico repeatedly endeavor to re-enter the United States, a successful attempt by the third try is almost certain. According to sociologist Douglas Massey, the probability of apprehension has actually declined to approximately 21 percent in any given trial, the reason being that, in the wake of border militarization, smuggling has become more professionalized. While it is expensive to hire a coyote (the going rate is about $3,000), a professional smuggler greatly reduces the chances for being caught.

Despite Border Patrol and other policing efforts, the flow of unauthorized immigration continues because the Mexican poor's need to find better-paid employment neatly fits with the need of labor-intensive U.S. industries to find motivated workers. The fit is so strong as to defy any attempt to repress it. Build a wall and tunnels will be built under it and new crossings will be found, with immigrants repeatedly braving the desert and death if necessary.

Border militarization has not been without its consequences, however, and those consequences have generally been the opposite of what was intended. Because coming to the United States has become so expensive and arduous, immigrants who cross the border seldom return home. Instead, they bring their families along as soon as possible. Hence, border enforcement, which has not succeeded in stopping the unauthorized flow, has succeeded in keeping these immigrants bottled up on the American side of the border. The policy has been instrumental in creating a large and growing unauthorized foreign population in the United States, exactly the opposite of what advocates of that policy intended. Not incidentally, the unauthorized status of this population leads directly to its vulnerability in the labor market, and, hence, to exploitative practices. These practices would not happen if immigrant workers had the legal means to fight them.

The end of the old cyclical pattern of Mexican workers crossing the border for seasonal work periods, then returning to their villages and towns afterward, also means that the children of these workers now grow up in the United States.

Children reared in poverty and as unauthorized aliens experience great difficulties in school and drop out in significant numbers, thereby limiting their opportunities for upward mobility. Widespread discrimination, bad schools, and lack of external assistance set the stage for the reproduction of poverty across generations. These factors also result in at least some of these children abandoning manual work in order to join gangs and the drug culture. The cycle has been baptized in the academic literature as "downward assimilation," and many offspring of unauthorized immigrants are at risk of following this path. Hence, the policy of intransigent restrictionism has not only created what it intended to prevent, but it is setting the conditions for the perpetuation of crime, violence, and gangs in America's cities.

This catastrophic situation could be prevented if public policy recognized that America needs and will continue to need massive inputs of migrant labor, a natural source of which is Mexico. Policy must also address maintaining the cyclical nature of the immigration flow, which is vital for the proper use of this labor in the interest of both countries. Any governmental program that aspires to succeed must seek to manage this momentous flow rather than attempt to eliminate it.

Acknowledging and managing the cyclical flow of migrant workers would achieve far better results for both countries.

The Mexican state has assiduously courted the U.S. government in an attempt to improve the legal situation of its expatriates and facilitate their return. An agreement should be worked out between the two governments where, in exchange for granting temporary legal status to Mexican laborers, the Mexican government undertakes the creation of incentives for their return. A cyclical labor flow is in the interest of not only the United States but also of Mexico. It avoids the depopulation of towns and entire regions, which is an inevitable consequence of permanent family migration. A back-and-forth flow guarantees the continuation of remittances, which decline when immigrants bring their families to the U.S. side of the border. Such a flow also channels the savings of returned immigrants into productive investments in agriculture and small urban enterprises in Mexican communities.

A common fallacy is the assumption that, once on this side of the border, immigrants never leave. This assumption is negated by the pattern of cyclical migration that existed before the militarization of the border and that continues to exist among legal migrants today. The reason is simple: Adult men and women raised with a different language and in a different culture generally prefer that language and culture and will return to them, if and when economic conditions permit. While a sizable minority of immigrants would still settle permanently in the United States, the majority would continue to make their home in Mexico if allowed to do so.

Reconstructing this pattern of cyclical migration will require giving migrants legal passage across the border when returning from visits to their families and home communities. It will also require creating minimum health and educational facilities for families and children left behind in Mexico, as well as generating opportunities in Mexico for the productive investment of migrant savings.

The immigration reform proposal that died in the Senate this past summer was a step in the right direction, but suffered four fatal flaws. First, to please the radical cultural right, it was loaded with so many additional repressive features that it would make legalization very expensive, burdensome, and probably unworkable. Assigning more Border Patrol agents, building more fences, and increasing electronic surveillance will all be costly and will produce the same result as similar policies in the past: not stemming the flow of immigration, but bottling it up on this side of the border. Making legalization cumbersome and punitive would play into the hands of smugglers and unscrupulous employers since it would discourage unauthorized immigrants from coming forward.

Second, the Bush administration proposal sought to revamp the entire immigration program, including a controversial point system. The current legal immigration system functions relatively well, and its few glitches could have been handled separately at a later time. The pressing issue is how to deal with unauthorized labor immigration.

Third, the administration addressed unauthorized immigration universally, ignoring that this is, overwhelmingly, a bilateral issue between Mexico and the United States. Most unauthorized immigration today originates in or passes through Mexico. Any reform measure with any hope of success needs to address this bilateral characteristic and requires close cooperation between the two governments.

Finally, the proposal mistakenly assumed that once migrants cross into the United States, they will permanently remain. Hence, it entirely neglected the need to restore the circular pattern of labor migration by creating conditions and incentives for return to Mexico.

Given the failure of the Bush proposal and of the present ineffective and costly policy of border repression, a bilateral labor management program can be built along these lines:

- Every adult Mexican with a clean police record and a certifiable job offer in the United States will be entitled to a temporary labor permit upon payment of U.S. $3,000 at the Mexico-U.S. border (roughly the going price to hire a professional smuggler).
- The permit will be valid for three years and renewable for another three. It will be contingent on staying with the first employer for a minimum of 90 days. Afterward, the migrant will be free to seek alternative employment.
- Temporary migrant workers will have the same rights as native-born workers, including the right to vote for and join

unions. Income and Social Security taxes will be deducted from their paychecks.

- Upon permanent return to Mexico, the migrant receives half the entry fee ($1,500) plus all accumulated Social Security payments.
- Migrants who wish to settle permanently in the United States after six years as temporary workers will be eligible to do so through a special provision of the immigration law, provided that they have a clean police record, a stable job, and a U.S. bank account of at least $5,000.
- Unauthorized migrants already in the United States will be first in the queue for temporary labor permits, provided that they have a clean police record and certifiable employment. All unauthorized Mexicans who come forward will be given temporary protected status while their permits are processed. They will pay the same entry fee as newcomers and be subject to the same rules thereafter. Those who can show that they have lived at least three years in the country will be eligible for permanent residence after another three years as legal temporary workers.
- The program will be initially capped at one million new entrants per year (a conservative estimate of the present unauthorized flow). The number will be adjusted periodically in consultation with employers' associations, trade unions, and the Mexican government, and enforcement of the cap will be the responsibility of the Mexican as well as the U.S. authorities.

The Mexican state would support this binational labor program through these measures:

- Actively policing its side of the border to prevent further attempts at border-crossing outside the legal labor program.
- Accelerating social investments in communities of migrant origin to guarantee adequate health and education facilities for families and children who remain behind.
- Continuing the current three-for-one (*tres por uno*) program through which every dollar remitted by migrant organizations in the United States for philanthropic or public works in their Mexican hometowns is matched by federal, state, and local government contributions in Mexico.
- Respecting the tax-free status of returned migrants' lump sum payments and creating credit programs that match the investment of these funds in productive enterprises.
- Setting up a comparable temporary labor migration program for Central American workers. As Mexican migrants move north and the Mexican economy develops, job opportunities will be created that are attractive to peasants and workers from Guatemala, Honduras, and El Salvador. In this manner, an ordered, echeloned circular migration system can be established.

Mexico is not a poor, but a middle-income, country, and its government is not as feeble as it is commonly portrayed by the U.S. media. The Mexican federal government has intervened forcefully and effectively in many instances of internal unrest and natural disasters; it conducts a vigorous foreign policy; and it operates a complex network of 48 consulates on this side of the border with a variety of useful programs for its expatriates. The enormous challenge of battling the drug trade has made this government appear less effective than it really is. If immigration is redefined as a bilateral labor management program, the Mexican government should be quite able to fulfill its side of the bargain.

The proposed measures would provide U.S. agriculture and other labor-intensive industries with a reliable labor force, while eliminating the present exploitation of migrant workers. They would facilitate the organization of the migrant labor force by trade unions, as fear of employer reprisals and deportation is effectively eliminated. Mexican workers would then be *less* competitive, since their vulnerability to employer abuses would be reduced through unionization and recourse to the courts. This should put upward pressure on wages, making manual jobs more attractive to at least some native-born workers. The proposed measures would also keep more immigrant families in Mexico, eliminating the social burden of a permanent impoverished population in the U.S. and the likelihood of downward assimilation in the second generation. As a result, this would prevent the depopulation of migrant-sending towns and regions in Mexico, while encouraging productive investment of migrant savings upon return. The proposal also includes creating an orderly program for those who opt for permanent migration and settlement, as well as organizing an integrated labor management system in North America in which vacancies created in Mexico by departing migrants are filled, in turn, by Central Americans—thereby strengthening local economies and thus reducing migratory pressures leading to U.S.–bound unauthorized migration.

Despite its flaws, the old Mexican *Bracero* program was arguably superior to what followed it. The clandestine immigrant flow that followed the program's termination recreated these conditions and made them far worse. Jobs for unauthorized workers became more exploitative, and employers became more accustomed to docile and cheap foreign labor than to using native-born labor. The calamitous situation that we live with today is a direct outgrowth of the end of the *Bracero* program without any rational alternative in its place.

Liberals can learn from this experience and not allow their idealistic concerns to detract from what is viable and what is right. In an ideal world, Mexican and other foreign workers would have decent employment opportunities at home and would not have to migrate; U.S. firms would hire native-born workers and pay them high wages with ample benefits. This is not the way things work out in the real world, though, and striving toward these ideals gets in the way of practical and viable solutions. A well-regulated temporary labor program is not ideal; it is simply the best option under present realities and, if properly handled, will do away with complaints about "broken borders" and function in the interest of workers and employers on both sides of the border. TAP

Alejandro Portes *is professor of sociology and director of the Center for Migration and Development at Princeton. He is the author (with Rubén G. Rumbaut) of* Immigrant America: A Portrait.

After Failure

With immigration reform dead, Democrats court Hispanics and Republicans go (more) nativist.

BY EZRA KLEIN

Who's Emma Lazarus? 21st-century bigots for the post-Bush Republicans

NEWT GINGRICH ISN'T ONE TO MINCE WORDS—particularly in the post-September 11 era, which so suits his penchant for whipping up hysteria. So it wasn't exactly a shock when the papers reported that he had worked up an audience by telling them how "sickened" he was that George W. Bush and Congress were taking a summer vacation "while young Americans are being massacred," and that he indignantly demanded that Bush call Congress back into a special session to prove "he is serious about winning the war here at home."

It was, in fact, a perfectly typical speech for the former speaker, essentially indistinguishable from every other fear-mongering ripsnorter he's delivered in the past six years. Save for one thing: The massacred Americans Newt spoke of aren't buried in Basra, and the war at home isn't against terrorists, or even against defeatist liberals. It's against illegal immigrants—at least one of whom (out of the country's estimated 12 million) is a suspect in a Newark murder, and thus fodder for Gingrich's political opportunism.

Gingrich is something of a jedi master at sensing and exploiting the Republican base's ugliest instincts, and, as usual, he's pitch perfect. The failure of the immigration bill in Congress has given the flailing Republican Party one last issue with which to rouse its base: The legislation activated a large anti-immigrant bloc, whose primal scream, amplified into a Senate-shaking roar by conservative talk radio, doomed the bill. Moreover, this brand-new constituency, which in mere weeks transformed itself from a loose mass of isolated, angry citizens into a brutally effective movement, wasn't about to sacrifice its momentum. In the weeks since the immigration reform effort died, states and localities have come under—and often buckled beneath—intense pressure to pass ever more restrictionist measures, Republican presidential candidates have been forced into ever stronger pledges of xenophobia, and activists have sought, and received, the promise of a crackdown at the federal level. "When Congress failed to act earlier this summer to pass comprehensive immigration reform, people were worried that we were going to be stuck with the status quo," said Dan Restrepo, director of the Americas Project at the liberal Center for American Progress. "Would that we were!"

Instead, the issue has taken a turn for the ugly. The hopes for a comprehensive reform bill that would have created some solution, however imperfect, for the country's 12 million undocumented immigrants have been dashed, and the chances of reviving the legislation are small. Rahm Emanuel, chairman of the House Democratic Caucus, put it most bluntly when he admitted that "there is no way this legislation is happening in the Democratic House, in the Democratic Senate, in the Democratic presidency, in the first term."

Though poll after poll shows strong majority support for a moderate solution, immigration is a classic intensity issue, wherein the small, committed minority can overcome the disengaged majority. "You have to accept the fact," sighed pollster Sergio Bendixen, who specializes in surveying the Hispanic population, "that the anti-immigrant movement is much, much bigger than the Hispanic electorate. Somewhere between 15 and 20 percent of all American voters consider illegal immigration very important for their vote, and the Hispanic electorate, in the most optimistic estimates, is no more than 10 million."

Fifteen to 20 percent of voters isn't much, but the piteous Republican Party, having lost everyone else, can't forfeit this howling remnant of its base. Even so, this xenophobic backlash is not an issue the party's leadership wants. Making inroads among Hispanics was, after all, a priority for Karl Rove, who sought to construct a permanent Republican majority and couldn't afford to sacrifice the most rapidly growing group in America. Even after the 2006 elections, when the desperate Republicans sought to stave off the effects of a failing war and an indicted Tom DeLay by turning to immigrant-bashing, the White House fought to signal a softer side to Hispanics, elevating Florida Sen. Mel Martinez, a bilingual Latino immigrant, to chair of the Republican National Committee, and pushing comprehensive reform legislation in Congress. Bush even suggested the bill's opponents "don't want to do what's right for America" and accused them of using "empty political rhetoric [and] trying to frighten our fellow citizens."

The will of the base, however, has overwhelmed the counsel of the tacticians. And the weakened Republican estab-

JEFF TOPPING / REUTERS / LANDOV

lishment is capitulating. John McCain, cosponsor of the comprehensive and humane McCain-Kennedy legislation, was flayed by primary voters for his position and is now sponsoring an enforcement-only bill in the Senate. The White House has announced a nationwide crackdown on illegal immigrants, which will range from increased border patrols to fines for employers who retain workers with unverified Social Security numbers. Once pro-immigrant Republicans were "supposed to be our best friends," says one staffer in the pro-immigrant movement. "And our people [Hispanics] know they're being betrayed."

The Hispanic community is most certainly noticing—and what they hear isn't principled concern over illegal immigration. It's bigotry. "I've been trying to put my finger in the dam of Hispanics leaving the Republican Party, and I can't anymore," said Massey Villarreal, vice chairman of the U.S Hispanic Chamber of Commerce. "I've run out of fingers." Anchors on Telemundo and Univision lead off, night after night, with coverage of raids and crackdowns against the Hispanic community, rendering their programs a sort of *Lou Dobbs Tonight* in reverse. DJs on the major Hispanic radio networks are calling for political action and reengagement among their listeners, exhorting those eligible for citizenship to take the oath and enter the political process.

Are these the seeds of a counter-backlash, rippling forth from the tens of millions of immigrants who don't like being demonized? It's possible. The collapse of the bill is making way for the emergence of a bold, pro-immigration movement. So long as the legislation lived, the groups working for it had to carefully protect the delicate bipartisan coalition necessary for its passage. That meant doing their best to avoid awakening the anti-immigrant bases of Republican senators. It meant staying quiet, and fighting this out in the halls of Congress rather than in the homes of the voters.

Now, the bill's failure has freed the pro-immigrant community from such strictures. "What we had," one staffer told me, "was a very professional, inside-the-beltway effort, and normally that would have been enough. But there was this tsunami of hate, and it wasn't." So what was once a Capitol Hill legislative strategy is slowly becoming a take-it-to-the-people political strategy to recapture, and reshape, the debate. "Now we're empowered to point out the bigotry," said the staffer. "We can point out what is underlying these fears."

In the near term, no one knows who gets the votes from this. The Hispanic community, which broke nearly 70 percent to 30 percent for the Democrats in 2006, will almost certainly turn out in larger numbers in 2008, and its increased presence in the pivotal states of New Mexico, Arizona, Colorado, Nevada, and Florida could swing the election to the Democrats. But whether this increased turnout will overwhelm that of the anti-immigrant voters is an open question. Either way, the battle has been joined. Republicans won't be able to abandon their base, and Democrats won't sacrifice their inroads among the Hispanic community.

"I think progressives will have to stand up and fight here," said Simon Rosenberg, head of the New Democrat Network, which has been the most aggressive institution urging the Democratic Party to court the Hispanic vote. "What's about to happen to Hispanics is unacceptable for any progressive in the United States."

Certainly, the Democrats' courtship of Hispanics is intensifying. The Democratic National Committee is preparing the largest Hispanic outreach program it has ever conducted, and the party is holding its convention in 35 percent Hispanic Denver. The immigrant community is suddenly aware that it has to fight to get Americans to understand that this is a battle for human equality. "We on the pro-immigration side are going to get good enough that we're going to get middle America very, very pissed," at anti-Hispanic intolerance, says the staffer. "This will be like the civil-rights movement, pitting normal people against racists." And against Newt Gingrich. TAP

City on a Hill

New Haven creates its own pro-immigrant policy.

BY MARA REVKIN

WITH IMMIGRATION REFORM JETTISONED from the national agenda, the mayor of New Haven, Connecticut, is resurrecting the debate in his own backyard. Rejecting the morally charged rhetoric that conservatives have used to cast opprobrium on free-riding aliens, John DeStefano is arguing that the inclusion of illegal immigrants in civil society is vital to public services that benefit the whole city.

Although non-voting immigrants are politically peripheral, New Haven officials estimate that they make up 10 percent of the city's population. In an effort to validate this presence, the city's Board of Aldermen has approved a municipal ID card—the first of its kind in any American city—that is universally available to New Haven's 125,000 residents, including its estimated 10,000 to 12,000 undocumented immigrants. The ID enables any holder, immigrant or otherwise, to access local banks, libraries, and public services. It also entitles them to prescription drugs at the HAVEN Free Clinic, which previously required uninsured patients to present a Social Security number. On July 24, city officials began distributing the application—in Spanish and English—at City Hall; by Aug. 14, 2,671 cards had been issued.

In discussing the myriad functions of the municipal ID—which also doubles as a debit card in local restaurants and stores—public officials are careful to differentiate between

rights and public services; the card only entitles residents to the latter. While it cannot shield immigrants from arrest or deportation, it is clear that the municipal ID has designated New Haven's undocumented immigrants as full-fledged participants in civil society. Its adoption also has raised the city's profile as a test ground for the progressive policies that incubate at think tanks but rarely make it onto the agenda of major municipal governments like New Haven's. Public officials in New York and other major cities are monitoring New Haven's experiment and evaluating its suitability for their own communities. If the ID lives up to the lofty expectations of its architects, other cities may replicate the program, at least until Congress produces a plan for comprehensive reform.

The Elm City Resident Card, named for the trees that once dominated the regional landscape, is the most recent in a series of public policies designed to incorporate marginalized groups into the New Haven community. Over the course of his 14 years in office, DeStefano has earned a reputation for reconstituting public offices to reflect New Haven's diverse demographic makeup. Half of the city's police officers are African American or Latino, and the force includes a higher percentage of female officers than any other department in Connecticut.

New Haven officials have won broad public support for the municipal ID by promoting the policy's practical virtues while deemphasizing its ideological baggage. According to Board of Aldermen President Carl Goldfield, the Elm City ID "is above all a pragmatic policy—and one that benefits the whole city." He continued, "From a public health and public safety standpoint, it doesn't make sense to have 10,000 members of a community afraid to get medical help or report crime, just because they're undocumented."

Key to the City: Mayor John DeStefano displays his new card.

BOB CHILD / AP IMAGES

Officials have won public support for the ID by promoting its practical virtues while deemphasizing its ideological baggage.

Optimists believe the card will help on many fronts. John Jairo Lugo, president of the local immigrant-rights group Unidad Latina en Acción, said that lack of documentation deters immigrants from reporting crimes because they frequently become objects of suspicion if they are unable to prove their identities. "If you have an encounter with the police department," Lugo said, "they can detain you for days or months in jail until you can come up with valid identification."

Additionally, Liam Brennan, who helped draft the Elm City ID proposal as a Yale law student, said that immigrants are disproportionately the victims of theft and home invasion, since they are frequently paid in cash but have nowhere to deposit their earnings. Local banks usually require a driver's license or Social Security card—documents noncitizens cannot obtain—to set up an account. But Brennan said that many banks have agreed to accept the new municipal ID. With possession of a bank account and a valid ID, immigrants will be simultaneously "more likely to report crime, and less likely to experience it themselves," he said.

But it's unclear just how much the card will help illegal residents' long-standing vulnerability when dealing with authorities. On June 6, just two days after the Board of Aldermen voted 25-1 in favor of the Elm City ID, New Haven's Immigration and Customs Enforcement (ICE) agents arrested 32 residents. Of these 32 individuals, only five had prior deportation orders. Twenty-eight of the 32 have been released on bond with the help of Yale Law School professor Michael Wishnie, who has challenged the motives behind the ICE raid and the manner in which it was conducted. City and state officials have alleged that the ICE conducted the raid in retaliation for the city's tolerant immigration policy. Wishnie, with a team of attorneys and Yale law students, is marshalling evidence to "show that the city's approval of the municipal ID was the catalyst for the ICE raids," he explained.

After watching ICE agents handcuff their neighbors, seemingly at random, many New Haven immigrants are more wary than ever of public officials. Despite reassurance from community leaders like Lugo that the ID will give them more security, not less, illegal residents are worried that any record of their presence in the city could result in deportation. "Many people are afraid that this ID is a trap," said Angela, an Ecuadoran immigrant who, fearing more raids, has been wearing a blonde wig to hide her ethnic identity. She guesses only one in five immigrants will apply. "I'm going to wait three weeks to make sure it is safe, and then I will get my card."

Immigrants who decide to apply also face intimidation by protesters. In July, critics of the program demonstrated outside City Hall as applications for the ID were handed out. Deputy Mayor Kica Matos described the volume and rancor of hate mail as "horrendous." "The phone calls have really been quite scary.

But this is why it's called a struggle. There's a reason why it's so hard to push forward a civil-rights agenda," Matos said.

Bill Farrel, a roofer from a New Haven suburb, has been mobilizing opposition to the program as a coordinator for Southern Connecticut Immigration Reform (SCtIR), claiming that the city is extending amnesty to illegal aliens at the expense of working-class citizens. Farrel fears that New Haven's municipal experiment could spawn a network of similar initiatives nationwide. "This issue is so much bigger than New Haven," he said. "As we speak, there are over 30 American cities awaiting the outcome of this program, in order to implement their own versions of it." (Whether or not the number is 30, certainly cities are watching: Wishnie said his team has been contacted about the program by numerous public officials and grassroots organizations, and Lugo said that his organization was aware of similar initiatives on the horizon in Chicago, Tucson, Miami, San Francisco, and Portland, Oregon. In New York City, Council Member Hiram Monserrat introduced nearly identical legislation on July 25, the day after New Haven began processing applications for the ID.)

SCtIR has threatened legal action, but it is unlikely that the organization will be able to demonstrate standing since it is based in a suburb of New Haven. Brennan, the former Yale law student who helped draft the ID card proposal, said that unless a charge is filed by an entity within the city, "it would be difficult to prove that any harm has been done." And according to Mayor DeStefano, "The program has broad support in New Haven. Most of the people who oppose it are not members of the community." Regardless of opposition to the program, DeStefano said he has consulted with legal advisers to ensure that "issuing an ID card is fully within the municipal authority of New Haven's government."

DeStefano points out that public fascination with New Haven's program has been amplified by "the absence of a coherent federal policy." "By failing to act, the government has created a policy of de facto tolerance for a population that isn't going to do anything but grow—in this city and in the United States as a whole." The fact that city officials like DeStefano are resorting to do-it-yourself reform only confirms the urgency of establishing a national immigration policy—one that acknowledges the presence of 12 million people who don't plan on leaving anytime soon. "The fact is that our economy could not sustain the loss of millions of workers, and it's unlikely that there is a real mechanism to deport [them]," DeStefano said.

Wishnie believes that local debate in cities like New Haven could eventually generate enough pressure to bring federal lawmakers back to the table. "The friction that we're seeing here in Connecticut is what will drive people back to their senators to demand comprehensive reform," Wishnie said. "Until that happens, communities will continue to govern themselves." TAP

***Mara Revkin**, a summer intern at* The American Prospect *and a junior at Swarthmore College, is spending the fall semester abroad to study Arabic and human rights law at the American University in Cairo.*

Leo the Linchpin

Steelworker President Leo Gerard looks like an old-time union leader, but he's put together a labor-environmentalist alliance that bridges some growing Democratic fissures.

BY JIM GROSSFELD

LEO GERARD IS CENTRAL CASTING'S IDEA OF A LABOR leader: tough and big. Really big—6 feet 2 inches tall and barrel-chested. He's just the kind of guy you'd expect to be the president of the United Steelworkers. So what's he doing palling around with Sierra Club Executive Director Carl Pope?

"Good jobs and a clean environment are important to American workers," Gerard proclaimed last year. "We can't have one without the other." The occasion was the kickoff of the Blue/Green Alliance, a joint project of the Steelworkers and Sierra Club to promote "Good Jobs, A Clean Environment, and A Safer World." Pope describes the effort as "one of the most important initiatives undertaken by the environmental movement in decades." To underscore this point, last November he and Gerard barnstormed through Minnesota, Ohio, and Pennsylvania, spreading the word that clean-energy technologies and conservation can yield millions of new jobs.

Gerard is hardly the first labor leader to join forces with the environmental movement. A generation ago, United Auto Workers President Walter Reuther asked, "What good is another week's vacation if the lake you used to go to is polluted?" But to Reuther, then leading a UAW at the peak of its strength, environmentalism was one more cause a socially responsible union ought to be supporting. To Gerard, it's more than that.

Gerard is outraged by melting ice caps, rising sea levels, and killer hurricanes—but he sees these catastrophes through a trade unionist's eyes. The overarching issue for him is corporate accountability. Companies that belch out greenhouse gases are driven by the same avarice that he first saw when he started work as a nickel smelter in Sudbury, Ontario. He argues that a more democratic economy would create jobs that don't endanger the environment. And, if the Steelworkers believe in anything, it's creating jobs.

Though still one of the country's largest unions, the United Steelworkers (USW) has been hemorrhaging members for years. By some counts, barely 30,000 of the USW's 850,000 members now work in the nation's depopulated steel industry. To make up for that loss, the union has engineered a series of mergers that have taken it far beyond the largely shuttered mills of Pittsburgh, Cleveland, and Gary. Today, you're as likely to find USW members working at oil refineries, paper mills, or tire plants—industrial venues that neither provide the kind of job security they once did (not, for instance, with Goodyear's U.S. employees compelled to compete with Chinese tire workers who earn 56 cents an hour), nor point the way to a conspicuously cleaner environment.

Gerard has responded to the double challenge of disappearing middle-income jobs and the advent of global warming by linking the two causes. Under his leadership, the Steelworkers have become the principal union backer of the Apollo Alliance, a coalition promoting a 10-year, $300 billion crash program to develop clean-energy alternatives. Apollo's analysts argue that three million new U.S. jobs could be created by building wind turbines, making buildings more energy efficient, and designing other kindred projects. In creating a new progressive gospel that links labor and enviros, Gerard has built an alliance of genuine strategic importance to the Democrats—most especially because the two constituencies' current disagreement over congressional efforts to mandate fuel-efficiency standards could drive them farther apart. Long a force for labor solidarity, Gerard has become a force for Democratic solidarity as well.

THE 21ST CENTURY DIDN'T GET OFF TO AN AUSPICIOUS START for the steel industry. By March 2003, according to research by Robert Bruno of the University of Illinois' Institute of Labor and Industrial Relations, 37 U.S.–based steel companies, prompted chiefly by soaring imports and retiree benefit costs, had filed for bankruptcy. At the time, one LTV leader mused, "In this market, our members could work for nothing, and it wouldn't do any good." As if to test the point, Cleveland-based LTV Steel demanded that the USW sign off on $1.3 billion dollars in wage and benefit cuts. Gerard's response was to end-run LTV management altogether: He presented the steelmakers' anxious creditors with an asset protection plan that

rivaled anything the company produced. Impressed, the creditors agreed to elbow aside LTV's negotiators and bargained a new contract directly with the Steelworkers. The company has since changed hands and shed most of its workforce, but many of the original LTV employees are still on the job—with their USW contract. However, even the cleverest bargaining strategies can't get around the fact that faced with globalization, the agreements negotiated by unions will continue to look less like contracts than terms of surrender.

Gerard thinks the USW can change that equation. The way he sees it, the Steelworkers' best option is what he calls "new unionism"—a combination of unabashed populism and internationalism similar to the politics of the New Democratic Party, the labor-backed party in his native Canada. To oppose the "neo-liberal" economic policies of the Clinton era, Gerard revamped the USW's political action program, an operation that had long done a better job producing bumper stickers than producing votes. He not only pumped new money and technology into the Steelworkers' election efforts, he also created a new structure outside the control of local union leaders to identify and train USW activists—a gutsy move in a union whose internal politics could hardly be called tame.

"**Absolutely Indispensable**": Leo Gerard, president of the United Steelworkers

Like other labor leaders, Gerard has also opted to globalize his union by forming alliances with its foreign counterparts—unions that represent employees at the same global companies where USW members work. But he's taking the USW's globalism one giant step farther, negotiating a merger of the USW with the newly-formed Unite, Great Britain's biggest union—a move that would create an organization with 3.7 million members on two continents. The new union, should the negotiations prove successful, would be the first of its kind—the first genuinely transnational union.

Of all his initiatives, though, Gerard's effort to bring unions and environmentalists together may prove to be the most important.

During the heady days of the 1999 Seattle demonstrations against the World Trade Organization, environmentalists were thrilled by the notion that a grand coalition with organized labor had finally come to pass. As one protest sign read: "Teamsters and Turtles, Together at Last." Since Seattle, however, "at last" has not meant "permanently." There wasn't an herbivore in sight when, in 2002, Teamster President Jim Hoffa, together with the leaders of the Carpenters, Seafarers, and the AFL-CIO's Building and Construction Trades Department, welcomed President Bush to Teamster headquarters to receive his thanks for backing his plan to open the Arctic National Wildlife Refuge for oil drilling. "This energy bill that we're working on is a jobs bill," President Bush told the assembled leaders. "Jobs so that men and women can put food on the table!" It was the kind of appeal anti-environmentalist politicians often make to union leaders. The kind that usually works.

Few of the conflicts between the labor and environmental movements have been as intense and long lasting as the duel over energy policy that first took shape after the 1973 Arab oil embargo and the quadrupling of world petroleum prices. In the 1970s, the fight was chiefly over nuclear power: a dream come true for legions of construction workers, the embodiment of evil to environmentalists. One byproduct of that brawl was the effort of groups like the newly formed Environmentalists for Full Employment to find common ground in the development of solar and other alternative energy sources. They argued that two and a half times as many jobs could be created through conservation and the development of solar power than through nuclear power. In 1978, with the support of the Carter administration, Earth Day leader Dennis Hayes tried to jump-start a movement for renewable energy by organizing the now all but forgotten Sun Day. The effort had the support of the UAW and the Sheet Metal Workers, but drew only a tepid response from the rest of organized labor. It wasn't that unions wouldn't talk about energy or were even averse to reaching to their left to do it. Through the 1980s the Citizen Labor Energy Coalition declared jihad against the oil industry, but the topic of energy and the environment

remained off-limits. That's where the issue stayed until the election of John Sweeney as head of the AFL-CIO in 1995.

Seeing environmentalists less as adversaries than as potential allies, Sweeney hired former Friends of the Earth President Jane Perkins to bind up the old wounds and give the labor federation a greenish tint. In addition to her unassailable credentials as an environmentalist, Perkins had been a leader of the Service Employees in Pennsylvania. She seemed like a natural to lead the effort, until she plunged forward with plans to gain labor movement backing for the Kyoto accords. It was a miscalculation, to say the least. The United Mine Workers saw the agreement as the kiss of death for the coal industry, and other industrial unions argued that Kyoto would encourage more U.S. manufacturers to make the move to China, which was exempt from the agreement. Sweeney quickly pulled the plug on Perkins' program. Enter Leo Gerard.

AS ONE OF THE FEW UNION PRESIDENTS ELECTED DIRECTLY BY HIS rank and file, Gerard's embrace of the environmental movement might seem a risky move. However, he is probably much more in sync with workers than more traditional labor leaders are. Pollster Celinda Lake has monitored attitudes about protecting the environment and finds that blue-collar workers are greener than many believe. "Working-class families share the same concerns about global warming as everyone else," she says. "They understand that responding to it will require big changes."

Anyone who wants to see Gerard's idea of what those changes can look like doesn't have to go any farther than Cambria County, Pennsylvania. It's home to Johnstown, a legendary steel town where steel production has fallen from a highpoint of two million tons of steel annually to its current level—none at all.

At first glance, Cambria County seems like one more rustbowl outpost that crawled out of the wrong side of the 1980s. However, that was before Gamesa, the Spanish wind turbine maker, opened its $50 million factory last year in Ebensburg. It now employs 240 workers. Another new Gamesa plant in Fairless Hills outside Philadelphia is even bigger and is expected to eventually employ more than 500 workers. Though Gerard demurs from taking credit for Gamesa, it's no secret that what helped clinch the deal was the state's commitment to have 18 percent of Pennsylvania's electricity come from clean technologies by 2020. That commitment wouldn't have happened without the support of the USW. Perhaps the best measure of the Steelworkers' role in helping Gamesa settle in Pennsylvania is the fact that the company did everything but roll out a red carpet when the union's organizers came to call. In June Gamesa's workers in Ebensburg and Fairless Hills ratified their first United Steelworkers contract.

Of course, opportunities like Gamesa don't come along often, which is why Gerard became the key backer of the Apollo Alliance. Gerard understood that Apollo could not only be a vehicle for the creation of green jobs, but could also become the big tent for labor and environmentalists. Bracken Hendricks, the founding executive director of the alliance, recalled, "When we started, there was no one talking about clean energy as a jobs issue and no one building a constituency for it among labor. It is both a political and an economic fact that if we want to win the fight on climate change, we have to do it in a way that also builds a stronger economy and more opportunity for workers."

Gerard quickly set about making Apollo into a labor-enviro joint venture. Though the USW wasn't the first union to endorse it, Gerard's passionate support for Apollo gave it the credibility it needed in labor circles. The Machinists joined the effort. So did the powerful and generally conservative International Brotherhood of Electrical Workers. Others were tougher sells. The Laborers, Operating Engineers, and other construction unions historically had a big stake in building nuclear power plants, but each came to back Apollo. Perhaps most important of all, Gerard helped Apollo win the support of the Mine Workers, the principal backer of the wildly anti-Kyoto Unions for Jobs and the Environment.

One by one, labor leaders began to buy Gerard's argument that Apollo was labor's best bet for ensuring that U.S. workers would become the beneficiaries, not the victims, of efforts to reduce greenhouse gas emissions. Gerard's backing for Apollo not only won it the support of the AFL-CIO's Industrial Union Council but also helped it gain the endorsement of its Building and Construction Trades Department and, eventually, the AFL-CIO itself.

APOLLO SUPPORTERS CAN POINT TO SOME VICTORIES in promoting clean-energy projects at the state and local levels. However, the real test of the coalition will soon come on Capitol Hill. Now that Democrats control the House of Representatives and, more or less, the Senate, blue and green voices are being heard again in Washington. However, they're not exactly saying the same thing.

Convinced that it's only a matter of time before some kind of global warming plan is enacted, unions and environmental groups are quickly lining up behind an array of different proposals. Organized labor's preferred response to global warming is S. 1766, the Low Carbon Economy Act of 2007, sponsored by Sens. Jeff Bingaman, a New Mexico Democrat, and Arlen Specter, a Pennsylvania Republican.

Bingaman's proposal would institute a "cap and trade" system, one of a handful of free market responses to social problems that actually seems to work. It would create a trading system where coal-burning utilities, refineries, and other big greenhouse gas producers would buy and sell permits allowing them to pump carbon dioxide, CO_2, into the atmosphere. The tens of billions of dollars the federal government would make by auctioning off credits to companies that wish to produce more greenhouse gases than the permits allow would go to finance new clean-energy technologies.

Bingaman's bill isn't the only plan that would create a cap and trade system, but its supporters say it is the one best geared to protecting jobs. They argue that with its emphasis on funding technology to help finance the reduction of CO_2 emissions from coal-burning power plants, the bill would throw a lifeline to thousands of utility workers and miners whose livelihoods would otherwise be on the chopping block. Rather than boost

auto fuel-efficiency standards, long anathema to the UAW, the plan would generate money for expanding the use of ethanol and retooling U.S. auto plants to build more fuel-efficient cars.

Little wonder that the AFL-CIO, the USW included, has been urging senators to sign on to the bill. However, environmentalists say that there's a problem with Bingaman's plan: It won't work. Sierra Club lobbyist Dan Becker called the bill worse than doing nothing at all. The Natural Resources Defense Council was only slightly more enthusiastic, noting that the plan did seem to be something of a step forward. In a way. Kind of.

The principal criticism of the Bingaman bill is that its goal of restricting projected 2030 U.S. greenhouse gas emissions to 1990 levels doesn't go far enough. The policies the bill would enact, its critics say, would keep the price of carbon too low to drive a new generation of low-carbon technologies into the market. In this way, Bingaman's bill might help protect existing jobs, but at the same time, it would reduce the incentive and means to create new ones. Environmentalists also dismiss Bingaman's suggestion that increasing ethanol use is an alternative to boosting fuel-economy standards. "Increasing ethanol use will absolutely cut emissions," one senior House staffer remarked, "but imagine how much deeper the cuts could be if we increased CAFE [Corporate Average Fuel Economy] standards, too."

With Blue and Green Ink: Gerard and the Sierra Club's Carl Pope establish a labor-enviro alliance in June 2006, Washington, D.C.

P.35 AND ABOVE: BILL BURKE / PAGE ONE PHOTO

The global warming proposal that has won plaudits from environmentalists is the Safe Climate Act of 2007 (H.R. 1590), a plan by California Democratic Rep. Henry Waxman that would create a cap and trade system geared to slashing greenhouse gas emissions a whopping 83 percent by 2050. Waxman's plan, hailed by the Sierra Club as "the most aggressive" global warming legislation, would set a national passenger car emission standard as tough or tougher than California's and require that 20 percent of U.S. electricity come from renewable sources by 2020. Sens. Bernie Sanders, a Vermont Independent, and Barbara Boxer, a California Democrat, have introduced an equally ambitious proposal in the Senate: the Global Warming Pollution Reduction Act (S. 309). Both plans promote a switch to clean energy and could still ease the impact on workers if the auction of pollution credits is used to create jobs.

Though it's likely that some kind of deal will eventually be struck, environmentalists are in no rush to compromise. Sure, they say, Congress could pass a mediocre bill now, but, given the current rate at which the planet is heating up—and the enormous investments required to stop it—there simply may not be another opportunity for tweaking. In the words of Emily Figdor of the U.S. Public Interest Research Group, "the science demands ambitious goals."

Privately, some of Bingaman's union supporters concede that the legislation falls short of what's necessary to stem global warming, but they stress that it's the best that can be done without dividing organized labor. Still, they're plainly feeling stung by the criticism. The environmentalists "are feeling their oats," one union official said. "They think they have much more of a mandate than they really do."

It's too soon to judge whether the battle over global warming will shatter the alliance Gerard has helped to build, but it's already testing it. On June 27, MoveOn supporters picketed the Ypsilanti, Michigan, office of Rep. John Dingell, where they branded the powerful chairman of the Committee on Energy and Commerce a "dinosaur" and "throwback" for opposing an increase in CAFE standards. When supporters of the group showed up at Dingell's office they were met by four times as many UAW demonstrators (including the union's president, Ron Gettelfinger) who slammed the MoveOners as insensitive to U.S. workers.

Episodes like the one in Ypsilanti plainly have some Democrats worried. The last thing any of them want going into the 2008 elections is a family feud over global warming. Ironically, fear of such a split seems to be generating more support for Apollo's policies than they've ever had before, as presidential candidates race to support the only energy plan labor and environmentalists agree on. "The irony," one political consultant noted, "is that because Democrats are scared shitless about getting on the wrong side of the AFL or the enviros, they are falling over themselves to back [Apollo]."

"After the election, any one of them will be able to say that they have a mandate to sink money into this," he added. "The only question is whether the labor guys and environmental people are going to keep from killing each other long enough to hold them to it."

All seem to agree that cannot happen without Leo Gerard. "In the strength of his commitment, Leo's unique in both the labor and environmental movements," said Apollo founder Hendricks. One environmental leader put it in stronger terms: "He is absolutely indispensable to holding this together." In this respect, Gerard, like Reuther, has become one of a handful of U.S. labor leaders with a base of support much broader than, not only his own union, but even organized labor. Should he succeed, he will be, in the words of one activist, "a great American—even though he's Canadian." TAP

***Jim Grossfeld** is a writer and union activist based in Bethesda, MD. He is the author of the 2006 Center for American Progress study* White Collar Perspectives on Workplace Issues: How Progressives Can Make the Case for Unions.

God's Precinct Walkers

When students at conservative Christian Patrick Henry College entered the real world of Republican campaigns in a swing state, they found that God's plan did not always include victory.

BY HANNA ROSIN

DEREK ARCHER'S TALL FRAME WAS SQUEEZED into the backseat with another freshman, his online Bible out on his lap. The pastor's son with the freshly combed blonde hair was heading down to Virginia Beach to campaign for Jerry Kilgore, the 2005 Republican candidate for governor. As they saw it, Kilgore needed their prayers and hard work: Virginia Lt. Gov. Timothy Kaine had caught up to Kilgore over the summer, and now polls showed them even.

A child of missionaries who'd settled in Akron, Ohio, Derek, like many of the students at Patrick Henry College (PHC), had been homeschooled all the way through high school. Although the college was only six years old, Derek had chosen Patrick Henry because he knew about its reputation as a feeder to White House internships and as the perfect place to pursue "the ministry of political activism," as he called it.

Patrick Henry College is located in Purcellville, Virginia, an hour outside of Washington, D.C. As the students drove away from campus the roads were clear, so it was not the traffic that was annoying the driver, junior Shant Boyajian, the former head of Patrick Henry's College Republicans.

"I read that President Bush is coming to speak for Kilgore," Derek said.

"Yes, well, that can be a sign that the campaign is in trouble," Shant pointed out. "And last time Bush came, Kilgore did not even want to be seen with him."

This did not compute with the freshmen. *Not want to be seen with Bush? Who would not want to be seen with Bush?*

"The Lord will provide," Derek said. "The Lord will provide."

Shant answered with a resigned, "yes." Later, when he was out of the car where the others couldn't hear him, he seethed. "I wish they would stop with that crap: They're all like, 'God is on our side, God is on our side. We can do everything.' I mean, I know it's terrible, but I'm just trying to be more realistic. I mean, maybe I'm being cynical or something, but I don't want to lie."

When he opened Patrick Henry College, founder and president Michael Farris traveled the country recruiting conservative Christian kids like Derek who were bright, politically minded, and itching to be near the president. The school would enlist the purest of born-again Christians in a war to "transform America," he told his recruits, by training its students to occupy the "highest offices in the land."

Farris' timing was perfect. Christian conservatives were poised to move from a protest group to a permanent part of the Washington scene. Their man was in the White House; a third of all congressmen defined themselves as evangelical. In the school's short life so far, Farris' students would see evangelicals at the peak of their power—in the 2004 election year—and in disappointing decline two years later. But unlike previous generations of fundamentalists, they were never going to retreat.

They were the children of Ralph Reed, the first head of the Christian Coalition—ambitious, entitled, and fearful, above all, of being irrelevant. They were determined to form the new evangelical establishment, and Farris was going to get them ready.

Now, Derek and his teammates were undergoing a Patrick Henry rite of passage—grassroots organizing. Much like fraternity hazing or basic training, every campaign gives you more hair on your chest and bigger bragging rights, pushes you from tender young thing into impatient veteran. The kids start near home, working on races for school boards or state legislatures, and eventually graduate to Senate or presidential campaigns. By the time they get to Patrick Henry, they can compare histories in shorthand: "I did a bunch of lit drops in '04," or "I was on GOTV in Ohio."

By junior year, the political junkies of PHC have picked up the habits of Washington insiders, including their irritability. Shant sported the trademark of a Patrick Henry rebel: the trim goatee, a gentle nod to the demonic. He talked about Derek and the other freshmen the way one imagines George Bush's advisers talk about James Dobson and the other titans of the Christian right once the microphones are turned off: "nuts" and "goofy"—something David Kuo, second-in-command of Bush's Office of Faith-Based and Community Initiatives, describes in his tell-all book, *Tempting Faith*. It's not that Shant and Derek disagreed about candidates or policy positions or even matters of faith. It's just that Shant had a checklist to get through and

state party professionals to answer to, and only three days to get everything done, so he didn't have time for the happy-happy praise-the-Lord talk. "I don't have a problem manipulating them to get them to do what I need them to do for this campaign," Shant said. "Maybe, eventually, they'll learn something."

The PHC students arrived in Virginia Beach in the evening and drove to a Comfort Inn at the end of a strip mall. Inside, a cheerless forest-green and maroon two-room lobby had been transformed into an impromptu war room crowded with about 200 high school and middle school kids from Generation Joshua, a group founded to involve homeschoolers in politics. For the next three days they would serve as the flunkies' flunkies, doing the bidding of their Patrick Henry elders. For the high schoolers, it was a civic-education field trip. For the Patrick Henry students it was a test run at leadership—the local party officials were actually counting on them to get out the vote. At 11 p.m., in this distant corner of Karl Rove's empire, no one showed any signs of flagging.

In a speech at the American Enterprise Institute after the 2000 election, Rove said that the president had lost the popular vote because fewer than expected "white, evangelical Protestants" had come to the polls. During the off-year in 2001, a handful of races did a test run of the "72-hour task force," an organized grassroots get-out-the-vote campaign. One of Rove's principal strategies for victory in 2004 was to combine these two election strategies. He mobilized evangelicals, and he put them to work in 72-hour task forces. On Election Day, four million more evangelicals voted than in 2000, a margin Rove often credited for Bush's victory.


Derek Archer, November 2006

JONA FRANK

From their inception, both Generation Joshua and Patrick Henry College served as satellites of this Republican get-out-the-vote operation. Gen J, as it's known, was launched officially in 2004, although it existed in other forms for several years before that. In 2001 Patrick Henry students participated in Rove's Virginia experiment. They worked on Mark Earley's race for governor. Earley lost, but the strategy worked in the lower-profile races.

In 2004 Gen J paid around $60,000 for hundreds of homeschool kids to work on campaigns of mostly conservative Christian candidates, coordinating closely with the Republican Party hierarchy. The group is run by Ned Ryun, a former presidential writer for Bush and son of former Kansas Rep. Jim Ryun. Its offices are on the campus of Patrick Henry and their philosophies are identical: "to ignite a vision in young people to help America return to her Judeo-Christian foundations," as Gen J's mission statement reads. The Gen Jers are the evangelical version of child soldiers, armed with clipboards instead of guns.

In 2004 Derek had been right down there with them, a Gen-J kid working the Bush campaign in Ohio, having his mom drive him around, and being told by some college kid what to do. This time he was on the other side, a team leader with his own group of high school students to manage.

"It's like a whole paradigm shift, from being told what to do to taking charge. I don't really feel older, but my responsibilities are a whole lot different. I've been given a position of authority, but it hasn't really sunk in yet. I still kinda feel like a kid."

The van ride the next morning was rocky at first. The maps were faded, and they didn't seem to track the streets perfectly. Everyone was wishing they had access to MapQuest. At some point Derek called his mom and she said, "I'm praying for you." Derek seemed greatly relieved at lunchtime. No one had gotten lost and everyone had food, and he could sit and just be one of the kids eating tacos and sucking on strawberry Blizzards.

When they got back to the hotel in the late afternoon, the other team leaders from Patrick Henry were buzzing around the war room. Kyle, Shant, and Amber, a blond, blue-eyed Republican press-secretary-in-the-making, seemed as if they

had been born with clipboards in their hands. "Listen up," they said, and their tired team members sat up straight. Young as they were, they'd already participated in the making of history, helping usher in a right-wing revolution in American politics. Their stripes were their T-shirts, mementos from the campaigns they'd worked on: Thune '04 and Coburn for Oklahoma and Women for Bush! Some had worked on successful races in 2004, when a critical mass of outspoken, ambitious Christian conservatives won seats in Congress: Jim DeMint and Bobby Jindal and John Thune and John Hostetler and Tom Coburn.

After church that afternoon the PHC students drove to church parking lots to put flyers in car windows. Derek was pleased. Earlier that week he'd seen Kilgore at a campaign rally. The candidate had given his standard stump speech, calling himself a "pro–gun owner, anti-tax, limited government, anti–illegal immigration, pro–public safety, trust-the-people conservative," and labeling Kaine a "typical liberal" who couldn't be trusted with the state's death-penalty laws.

But Derek felt something was missing. "He mentioned the culture of life briefly, but I wished he would talk about his pro-life stance more," he said. "Kilgore is very pro-life. Kaine is not whatsoever." Kaine had made his faith a central part of his campaign strategy. He had talked about growing up a devout Catholic, and how a mission trip changed his life. In a pro–death-penalty state, he rejected the practice because his faith demanded it. But Derek didn't take this into account. He called him "very very very liberal," and the church flyers echoed his thoughts: "LIBERAL TIM KAINE: Supports abortion without restriction. Opposes a constitutional amendment banning gay marriage. Supports gay adoption. Believes the effort to place the motto 'In God We Trust' in schools is ridiculous."

The first stop went without a hitch. Derek and the others rushed out and placed the flyers under windshield wipers. At the second stop, they ran into trouble. One of the deacons saw them drive up and came out a side door. "We'd really rather you didn't do this on a Sunday. We're worshipping in there. We'd like a break from all this."

The kids apologized, removed all the flyers, and got back in the car. Kyle was a little annoyed. In a good operation, the campaign would have called the pastor or the assistant pastor to let them know they were coming "but the RNC must have called the secretary or something." Derek was more puzzled. It had never really occurred to him that a church would consider campaigning and worship to be at odds with each other; in his mind, they served the same purpose. Now he could see, "it's rather controversial."

After a day in charge, Derek had cemented his role, and now his team was lost without him. "I need to talk to Derek. Where is he?" one 15-year-old boy asked, roaming the lobby. At that moment, Derek walked out of the elevator, in a flannel shirt and jeans, with his gangly Jim Carrey walk, but in control. "Yes, I'm the team captain. I have the maps." Kyle and Amber and Shant had been up all night strategizing. Kyle, who looked like a pinup boy on a good day, was looking pale and ragged, with a three-day growth and flip-flops. Amber was sick, too sick to

drive. The rental-car agreement stipulated that a driver must be at least 21, and there was only one such person available: me. Amber handed over the keys.

Mothers of older kids have always told me that driving your kids around affords a unique opportunity for spying because they talk to their friends and forget that you're there. This piece of wisdom turned out to be true. Six hours of uncensored backseat talk (no radio, because you never know what might come on) gave me a window into the mind of the homeschooled child. Here is the secret file: They love George Bush so much they sometimes dream about him. They also love *The Princess Bride* and *The Incredibles*, a Pixar movie about a race of domesticated freaks trying to pass as normal who save the planet. On public schools: "Don't get me started. They teach you that kids are descended from monkeys and a godless view of history. No wonder they live such a degraded lifestyle. That's really not something I want to be exposed to right now." On extracurricular activities: "I socialize with the heathens on my swim team." On college: "I want to go to Cornell. Have you heard of it?"

"Yeah," answered one boy. "I heard football players get really drunk and they almost, like, rape the girls."

During the long stretches of driving, they got a little naughty. One girl suggested ripping down some Kaine signs that were stuck near a highway overpass. ("Let's not and say we did.") They gossiped, but the news was slightly out of date: Britney is "pretty much a slut" and "Jennifer doesn't want a baby." And "that girl with Tom Cruise, she's pregnant." When we got to McDonald's, they perked up because they got to watch CNN. (Gen-J rules allow Fox News only.)

One time I looked in the rearview mirror and was shocked to see a girl leaning her head against the boy seated next to her. What should I do? Pry them apart? Tell their moms? And then I put the clues together: They were brother and sister, and four of the others were siblings, too. When the girl lifted her head, she asked, "Is playing spin the bottle, like, illegal?"

When we got to a designated neighborhood, they launched with Von Trapp efficiency. Someone would open the van door, and then Derek or another team leader in the car yelled, "This is it! Go for smiles! Go for Christ!" and the blitz was on. They ran out—yes, ran—to their assigned houses. From a distance, the scene must have looked like a heist. By nightfall Derek was exhausted, but he worked himself up for one more round of phone banking.

ON ELECTION DAY, IT WAS DEREK'S TURN TO GIVE the troops a pep talk. Before he talked he jumped up and down like a pogo stick to shake out his excess energy. He began with a parable from Luke that Jesus told to a restless crowd. A king wants to test the loyalty of his subjects by asking them to invest his money. Those who fail to invest he punishes. The one who invests wisely he rewards with rule over 10 cities.

The day before, the 200 kids had knocked on 5,337 doors and made 1,400 phone calls. "What we're doing here is grassroots work, knocking on doors and the like, and it might not seem significant, and it might seem boring. But God wants you to be trustworthy, to be faithful in the small things. If you're not faithful in the small things, God won't trust you with the big things. If you're not faithful in the small things, when it comes time to say, 'Hey, I want to be president of the U.S.,' God will not give you those things.

"So let's knock on those doors and make those calls, okay? Now let's pray ..."

Because the kids didn't listen to the radio, they didn't know anything about the polls, and missing a few hours of sleep had made them light-headed. They stood by the side of the main road holding campaign signs, singing, doing the wave, yelling, "Vote Jerry Kilgore! Have a Blessed Day!" and hoping the truckers honked.

In the afternoon, they did one last stretch of calling: "Only a few hours left," Derek said. "Give it all you got." By 6:30 the lady in charge told them to quit because the polls were about to close. "I'm almost done with this page, ma'am. May I finish it up?" Derek went on for about 15 more minutes. "Now we go to the victory party. And it will be a victory party, God willing."

Derek rode with a Patrick Henry junior in an old Dodge for the hour drive to Richmond; fortunately the radio was broken, so they couldn't be tempted to listen to exit polls. As they climbed the stairs to the main hall, the kids trailed Derek like a pack of puppies.

"I hope we win," one boy said.

"Absolutely," Derek answered.

"Amen."

"If God wills it."

"It's all up to Him."

Upstairs the trappings of a Republican frat-style victory party had been laid out: orange balloons, beer, wine, martinis, no food. People were drinking but they were doing it grimly, huddled in corners. Many were sitting down and talking on cell phones. One little kid was already asleep under a Kilgore sign. The Gen-J kids didn't notice the subdued atmosphere. They charged in from a side door, yelling, "Kil-*gore*! Kil-*gore*!"

Derek did not join in, but he didn't stay outside with Kyle and Shant, either. He stayed at the edge of the group chatting with some old Gen-J friends. I asked him about the race but he didn't want to talk. "Do you mind asking me when it's more concrete?"

At 10 p.m. Fox called the race; with 88 percent of the vote counted, Kilgore had lost, 46 to 51.6 percent.

"Yes, ma'am."

"We lost, ma'am."

On the three huge TV screens at the front of the room, the Fox analysts had launched a postmortem designed to break Derek's heart. They were saying that the race was the most closely watched of the election season, that it meant "the Bush magic is over," and that "Bush is at the lowest point of his presidency." They were already predicting that "the Republicans can see their own doom," and they would probably lose control of Congress in 2006. They were saying that Bush's favored strategy of "mobilizing conservative voters by dividing the electorate on hot-button cultural issues failed." They

were saying that Kaine proved a "Democrat can talk about his faith and make an enormous difference," and that in the future other Democrats could "win back the faith vote." They were saying that Derek's formula for understanding the world was no longer making sense.

But Derek was not listening. He had been swept away on one of those oceans of prayer that sometimes overtake Christians in hours of desperation, confusion, and need. They stood close, in circles of 20 or more, eyes closed and bodies pressed against bodies, nobody worried or noticing. They held each other up as if they were in a mosh pit. There was no leader or obvious direction, but the words flowed smoothly, coming from here, now from over there, like waves of light:

"Dear Lord. Please help us to understand. We campaigned with all of our hearts for Kilgore. Please help us to get over this."

"Lord, please help us to learn from this, to understand."

"Lord, regardless of who wins, You are in control."

"Yes, Lord, it's not about Democrat or Republican. We are working for You. Whoever You put in office, that's in Your control."

"Lord, You have Your reasons. I just pray You help us accept that."

Later, much later, when he had opened his eyes again, Derek began to work through it. "I don't think I approached this race with quite the same sincerity as I did last year. Last year I took it more seriously. I prayed a lot more.

"If I look at it through my eyes, I say, 'Oh no, oh dear.' But God has His own plan," he said, and quoted an eighteenth-century Lutheran hymn:

Blind unbelief is sure to err
And scan His work in vain;
God is His own Interpreter,
And He will make it plain.

Outside the ballroom, Kyle had already moved on and was outlining a paper on Aristotle. Shant was pacing, wishing he went to a different school so that he could drink. Derek stayed inside with the kids; one of them had turned 16 that day, and he wanted them all to sing "Happy Birthday."

KILGORE'S LOSS WAS THE STUDENTS' FIRST LESSON in the confusing realities of politics. What did it mean that the man they thought God had chosen had lost? What were they supposed to understand from that defeat?

In the 2006 midterm election, Derek placed his hope in Republican Kenneth Blackwell, an African American former football star with a preacher streak who was running for governor back in Derek's home state of Ohio. To Derek, Blackwell was a dream candidate. At church rallies, Blackwell talked about "forces that were running God, faith, and religion out of the public square."

But it happened again: Blackwell lost by 23 percentage points. Other titans of the Christian right lost that year as well: Rick Santorum in Pennsylvania, Jim Talent in Missouri, Jim Ryun in Kansas. Bush's approval ratings plummeted to record lows. In the months after the election, Derek acknowledged a fact he'd long avoided: Republicans were not all good Christian men. There had been the scandal involving Republican lobbyist Jack Abramoff and House Majority Leader Tom DeLay. In March 2007 Derek was shocked to hear Newt Gingrich, one of his heroes, admit to having had his own affair while he was fighting to impeach Bill Clinton for lying about Monica Lewinsky. "I've become in some ways disenchanted with national politics," Derek told me when I caught up with him this spring.

A historian of the Christian right might perk up at the phrase "disenchanted with national politics." In the past, Derek's sentiment would have been a sign that evangelicals were about to go back into the wilderness, that we could soon expect to hear a modern-day evangelical prophet telling his flock to drop out of mainstream culture, to see a boom in the homeschooling movement and a dip in the number of Bible-quoting politicians.

But this time around, the cycle is unlikely to repeat itself. Evangelicals are far too entrenched in American politics and culture to drop out en masse. It took the conservative political movement 30 years to become a fixture in American politics, and it has taken evangelicals about the same amount of time. Like conservatives, evangelicals may remain chronically ambivalent, afflicted with a persecution complex despite their obvious successes. But they now control enough interest groups and think tanks and state and federal offices and movie-production companies to employ bright Christian interns for generations to come. They are secure enough in their power to know that they can respond to trying times without falling apart as a movement.

Much as I marveled at the Patrick Henry students, I doubted that any of them—not even the most rebellious of the campus rebels, not even the least conservative kid there—would ever moderate their views enough to win my vote—not for president, congressman, or even city councilman.

Toward the end of my reporting, my recalcitrance began to bother the students, and I could feel their frustration. After two years of long, intense, often personal conversations with me, they hadn't managed to move me much. Much as I hated to disappoint, I remained constitutionally incapable of the modern conservative Christian's brand of certainty. I just feel more at home with the God of what they call the Old Testament, merciful one moment and cruel the next, but fundamentally unpredictable. To me this is much closer to life as we live it.

"Intellectual suicide!" one Patrick Henry graduate warned me. But underneath the arrogance, there must have been some concern for their own predicament: If they couldn't take back one friendly reporter, what about the rest of America? TAP

***Hanna Rosin** is a contributing editor at* The Atlantic. *This article is excerpted from* God's Harvard, *© 2007 by Hanna Rosin. Reprinted by permission of Harcourt, Inc.*

Schools as Scapegoats

Our increasing inequality and our competitiveness problems are huge—but they can't be laid at the door of our education system.

BY LAWRENCE MISHEL AND RICHARD ROTHSTEIN

EDUCATION IS THE ANSWER. BUT, WHAT'S THE question? Simple: What's the cure for any adverse economic condition?

Is your pay stagnant or declining? Quick, get more education.

Are workers failing to share in economic growth? Too bad, they should have gained more skills.

Are you worried about jobs offshored to low-wage countries? Blame schools for workers' lack of creativity.

Is the nation failing to compete globally? Raise education standards across the board.

Education as the cure-all is everywhere around us. But this contention exaggerates the role of schools in the economy, and it conflates two issues: First, how can American firms increase productivity to improve their ability to compete in the world? And second, how have the fruits of U.S. productivity growth been distributed, and what explains rising inequality?

Education can help in the first area, although it is far from a silver bullet. As to the second, education deficits have had very little to do with the changes in the distribution of wages. Fortunately, after more than two decades, the education-as-panacea argument is being overwhelmed by contradictory evidence. Perhaps we may now be able to face more clearly the separate challenges of enhancing competitiveness and reconnecting the link between productivity growth and pay.

THE MODERN OBSESSION WITH SCHOOLS AS THE CAUSE AND CURE of our economic problems began with President Ronald Reagan's 1983 report, *A Nation at Risk*. Increased market shares for Japanese automobiles, German machine tools, and Korean steel, the report charged, reflected the superior education of workers in those nations: "Our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world ... The educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation ..."

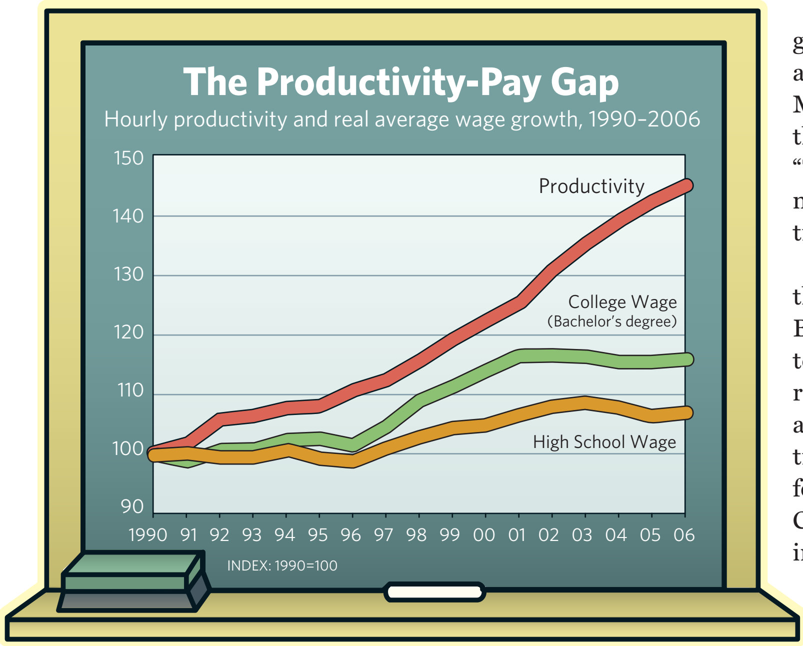
In 1990, a group of prominent Democrats and Republicans, calling themselves the National Center on Education and the Economy, followed with another report, *America's Choice: High Skills or Low Wages*. It saw skills development as virtually the *only* policy lever for shaping the economy. It charged that inadequate skills attained at flawed schools had caused industrial productivity to "slow to a crawl" and would, without radical school reform, lead to permanently low wages for the bottom 70 percent of all Americans.

Leading public intellectuals, such as *Prospect* co-founder Robert Reich, focused attention on human capital solutions in a laissez-faire global system. In his book, *The Work of Nations*, Reich argued that international competition would be won by nations with the most (and best) "symbolic analysts," not "routine" workers. Lester Thurow's book, *Head to Head*, forecast that Western Europe would come to dominate the United States and Japan because European schools were superior. Many mainstream economists, both liberal and conservative, agreed that rising-wage and income inequality were caused by an acceleration of "skill-biased technological change," meaning that computerization and other advanced technologies were bidding up the relative value of education, leaving the less-skilled worse off.

Yet the response of American manufacturers to these analyses was curious. Automakers moved plants to Mexico, where worker education levels are considerably lower than those in the American Midwest. Japanese manufacturers pressed their advantage by setting up non-union plants in places like Kentucky and Alabama, states not known for having the best-educated workers. But high school graduates in those locations apparently had no difficulty working in teams and adapting to Japanese just-in-time manufacturing methods.

The ink was barely dry on the *America's Choice* report when Americans' ability to master technological change generated an extraordinary decade-long acceleration of productivity in the mid-1990s, exceeding that of other advanced countries. It was accomplished by the very same workforce that the experts claimed imperiled our future. Productivity advances created new wealth to support a steady increase in Americans' standard of living.

And for a brief period, standards of living did increase because the fruits of productivity growth were broadly shared. As the chart on the next page shows, the late 1990s saw increasing wages for both high school and college graduates. Even



good our schools, American engineers won't be six times as smart as those in the rest of the world. Nonetheless, Marc Tucker, author of *Tough Choices* (and president of the group that produced the 1990 report as well), asserts, "The fact is that education holds the key to personal and national economic well-being, more now than at any time in our history."

Administration officials blame workers' education for the middle-class income stagnation that has occurred on Bush's watch. Treasury Secretary Henry Paulson contends that "market forces work to provide the greatest rewards to those with the needed skills in the growth areas. This means that those workers with less education and fewer skills will realize fewer rewards and have fewer opportunities to advance." Former Federal Reserve Chairman Alan Greenspan frequently blamed schools for inequality: "We have not been able to keep up the average skill level in our workforce to match the required increases of increasing technology ..."

This view can be found on both the Republican right and the Democratic center. The American Enterprise Institute's Frederick Hess and former Clinton White House domestic policy staffer Andrew Rotherham jointly write in an AEI article that "study after study shows an America unprepared to compete in an increasingly global marketplace." They worry that the urgent "competitiveness agenda" could be derailed if we are distracted by a focus on equity-improving outcomes for disadvantaged students. Attention will now have to be turned, they conclude, to further improving the technological savvy of those already primed to succeed.

University of Chicago economists Kevin Murphy and Gary Becker (a Nobel laureate) recently wrote that there is an "upside" to income inequality because it encourages more people to go to college. They warn that raising taxes on high-income households and reducing them on low-income households is tantamount to "a tax on going to college and a subsidy for dropping out of high school." In this way of thinking, preserving the Bush tax cuts is the way to stimulate college enrollment.

But these 21st-century claims are as misguided as those of the last century. Of course we should work to improve schools for the middle class. And we have an urgent need to help more students from disadvantaged families graduate from good high schools. If those students do so, our society can become more meritocratic, with children from low-income and minority families better able to compete for good jobs with children from more privileged homes. But the biggest threats to the next generation's success come from social and economic policy failures, not schools. And enhancing opportunity requires much more than school improvement.

The misdiagnoses of the early 1990s were understandable. When *America's Choice* was written, when the Reich and Thurow books were best sellers, American productivity growth had, indeed, stagnated. These authors could not have known that explosive growth was just around the corner. But today's education scolds have no such excuse. Workforce skills continue to generate rising productivity. In the last five years, wages of both

wages of high school dropouts climbed. But no presidential commissions or distinguished experts were praising American education for producing widely shared prosperity. Instead, denunciations of public schools increased in intensity, often tied to calls for their privatization with vouchers.

Then, the collapse of the stock bubble in 2000, the recession of the early 2000s, and the intensification of policies hostile to labor, brought wage growth to a halt. Living standards again began to decline and inequality zoomed—at the same time that workforce productivity continued to climb. White-collar offshoring to India, China, and other low-wage countries signaled that globalization was now taking its toll on computer programmers and other symbolic analysts of the information age.

TODAY, HOWEVER, A NEW CAST OF DOOMSAYERS HAS RESUSCITATED an old storyline, picking up where *A Nation at Risk* left off. Forgetting how wrong such analyses were in the 1980s and 1990s, the contemporary cliché is that however good schools may once have been, the 21st century makes them obsolete. Global competition requires all students to graduate from high school prepared either for academic college or for technical training requiring an equivalent cognitive ability. We can only beat the Asians by being smarter and more creative than they are.

The argument got a boost from *New York Times* columnist Thomas Friedman's 2005 book, *The World is Flat*, and has been repeated by the same National Center on Education and the Economy in *Tough Choices or Tough Times*, a sequel to its 1990 report. The argument has also garnered support from influential foundations (Gates, for example, and its chairman, Bill Gates) and from education advocacy groups (such as the testing organization, ACT).

The *Tough Choices* report bemoans the fact that "Indian engineers make $7,500 a year against $45,000 for an American engineer with the same qualifications" and concludes from this that we can compete with the Indian economy only if our engineers are smarter than theirs. This is silly: No matter how

PETER HOEY

high school– and college-educated workers have been stagnant, while productivity grew by a quite healthy 10.4 percent.

Rising workforce skills can indeed make American firms more competitive. But better skills, while essential, are not the only source of productivity growth. The honesty of our capital markets, the accountability of our corporations, our fiscal-policy and currency management, our national investment in R&D and infrastructure, and the fair-play of the trading system (or its absence), also influence whether the U.S. economy reaps the gains of Americans' diligence and ingenuity. The singular obsession with schools deflects political attention from policy failures in those other realms.

But while adequate skills are an essential component of productivity growth, workforce skills cannot determine how the wealth created by national productivity is distributed. That decision is made by policies over which schools have no influence—tax, regulatory, trade, monetary, technology, and labor-market policies that modify the market forces affecting how much workers will be paid. Continually upgrading skills and education is essential for sustaining growth as well as for closing historic race and ethnic gaps. It does not, however, guarantee economic success without policies that also reconnect pay with productivity growth.

American middle-class living standards are threatened, not because workers lack competitive skills but because the richest among us have seized the fruits of productivity growth, denying fair shares to the working- and middle-class Americans, educated in American schools, who have created the additional national wealth. Over the last few decades, wages of college graduates overall have increased, but some college graduates—managers, executives, white-collar sales workers—have commandeered disproportionate shares, with little left over for scientists, engineers, teachers, computer programmers, and others with high levels of skill. No amount of school reform can undo policies that redirect wealth generated by skilled workers to profits and executive bonuses.

College graduates are, in fact, not in short supply. A background paper for the *Tough Choices* report (but not one publicized in the report itself) acknowledges that "fewer young college graduates have been able to obtain college labor market jobs, and their real wages and annual earnings have declined accordingly due to rising mal-employment." In plain language, many college graduates are now forced to take jobs requiring only high school educations.

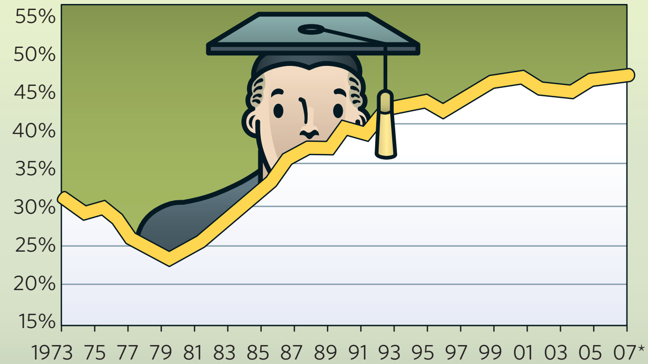
In many high school hallways you can find a chart displaying the growing "returns to education"—the ratio of college to high school graduates' wages. The idea is to impress on youths the urgency of going to college and the calamity that will befall those who don't. The data are real—college graduates do earn more than high school graduates, and the gap is substantially greater than it was a few decades ago. But it is too facile to conclude that this ratio proves a shortage of college graduates.

Statistically, the falling real wages of high school graduates has played a bigger part in boosting the college-to-high-school wage ratio than has an unmet demand for college graduates. Important causes of this decline have been the weakening of labor market institutions, such as the minimum wage and unions, which once boosted the pay of high school–educated workers.

For the first time in a decade, the minimum wage was recently increased. The curious result will be a statistical decline in "returns to education." But we should not conclude from a minimum-wage increase that we need fewer college graduates, any more than we should have concluded from falling wages for high school graduates that college graduates are scarce and schools are failing.

Returns to Education

The ratio of college to high school graduates' wages, 1973–2007



*2007 First half

Another too glib canard is that our education system used to be acceptable because students could graduate from high school (or even drop out) and still support families with good manufacturing jobs. Today, those jobs are vanishing, and with them the chance of middle-class incomes for those without good educations.

It's true that many manufacturing jobs have disappeared. But replacements have mostly been equally unskilled or semi-skilled jobs in service and retail sectors. There was never anything more inherently valuable in working in a factory assembly line than in changing bed linens in a hotel. What made semiskilled manufacturing jobs desirable was that many (though not most) were protected by unions, provided pensions and health insurance, and compensated with decent wages. That today's working class doesn't get similar protections has nothing to do with the adequacy of its education. Rather, it has everything to do with policy decisions stemming from the value we place on equality. Hotel jobs that pay $20 an hour, with health and pension benefits (rather than $10 an hour without benefits), typically do so because of union organization, not because maids earned bachelor's degrees.

It is cynical to tell millions of Americans who work (and who will continue to be needed to work) in low-level administrative jobs and in janitorial, food-service, hospitality, transportation, and retail industries that their wages have stagnated because their educations are inadequate for international competition. The quality of our civic, cultural, community, and family lives demands school improvement, but barriers to unionization have more to do with low wages than does the quality of education. After all, since 1973 the share of the workforce with college

PETER HOEY

degrees has more than doubled; over 40 percent of native-born workers now have degrees beyond high school. Additionally, the proportion of native-born workers that has not completed high school or its equivalent has decreased by half to just 7 percent.

Indeed, Becker's and Murphy's own data confirm what our chart shows: The wage gap between college- and high school–educated workers was flat from 2001 to 2005. However, inequality surged in this period, a fact that can't be explained by something that didn't change! Moreover, other industrialized countries have seen a more rapid growth in college completion than the United States has, yet those nations accomplished this educational growth without increasing inequality.

FORTUNATELY, THE ELITE CONSENSUS ON EDUCATION AS a cure-all seems now to be collapsing. Offshoring of high-tech jobs has deeply undercut the Clinton-era metaphor of an education-fueled transition to the information age, since it is all too apparent that college educations and computer skills do not insulate Americans from globalization's downsides. Former Clinton economic advisor (and Federal Reserve vice chairman) Alan Blinder has emerged as an establishment voice calling attention to the potentially large-scale impact of continued offshoring. Blinder stresses that the distinction between American jobs likely to be destroyed by international competition and those likely to survive is *not* one of workers' skills or education. "It is unlikely that the services of either taxi drivers or airline pilots will ever be delivered electronically over long distances ... Janitors and crane operators are probably immune to foreign competition; accountants and computer programmers are not."

A growing number of other mainstream economists now also caution that blaming inadequate schooling for falling living standards and growing inequality might be too simplistic. In a series of papers, David Autor, Larry Katz, Melissa Kearney, Frank Levy, and Richard Murnane, mainstream Cambridge-based economists who promoted the story of a technology-based transition to the 21st century, now have revised their account. They assert that prior to the 1990s, technology increased demand for more educated workers across the board, but that now there is "polarization," where technology disadvantages middle-skilled workers relative to those with both more and less education. Their finding severely undercuts the suggestion that upgrading human capital is the solution to inequality.

Alan Greenspan's successor as Federal Reserve chairman, Ben Bernanke, has also adopted a less simplistic analysis. While concurring that skills matter, Bernanke also observes that a poorly educated workforce cannot explain "why the wages of workers in the middle of the distribution have grown more slowly in recent years than those of workers at the lower end of the distribution, even though, of the two groups, workers in the middle of the distribution are typically the better educated."

Prominent free-trade economists now also acknowledge that education reform cannot address Americans' economic insecurity nor solve globalization's political problems. In a recent analysis prepared for the financial services industry, two prominent former Bush administration economists (Grant Aldonas and Matthew Slaughter), and one from the Clinton administration (Robert Z. Lawrence), wrote that since 2000, "only a small share of workers at the very high end has enjoyed strong growth in incomes. The strong U.S. productivity growth of the past several years has not been reflected in wage and salary earnings, and instead has accrued largely to the earnings of very high-end Americans and to corporate profits. The bottom line is that today, many American workers feel anxious—about change and about their paychecks. Their concerns are real, widespread, and legitimate ... For college graduates and those with non-professional master's degrees, this poor income performance is a new and presumably unwelcome development."

And Robert Reich no longer believes that being a symbolic analyst is adequate income protection. He now blogs, "The only people who are getting much out of this economy are in the top one percent—earning over $800 grand a year. They're taking home almost 20 percent of total income. Back in 1980, the top one percent took home 8 percent of total income."

In a paper recently posted on the National Bureau of Economic Research's Web site, Massachusetts Institute of Technology economists Frank Levy and Peter Temin wrote, "The current trend toward greater inequality in America is primarily the result of a change in economic policy that took place in the late 1970s and early 1980s." They went on to say that "the recent impacts of technology and trade have been amplified by the collapse of these institutions," by which they mean the suppression of unions and the abandonment of the norm of equality.

These are not problems that can be solved by charter schools, teacher accountability, or any other school intervention. A balanced human capital policy would involve schools, but would require tax, regulatory, and labor market reforms as well. To take only one example, in the daze of college-for-all, what used to be called "vocational" or "career" education has been discredited. It should be brought back. We recently analyzed a group of 21st-century occupations not requiring a college education that, at least for the time being, still provide middle-class incomes. These include firefighters, electricians, machinists, aircraft engine mechanics, electronic technicians, licensed practical nurses, and clinical laboratory technicians. We found that white non-college youth were 50 percent more likely to land one of these "good" jobs than black non-college youth. Equalizing this access will require a combination of stepped up anti-discrimination efforts, job placement services, and skills training directed at schools serving minority youth.

In their paper posted on the Web site of the National Bureau of Economic Research, Levy and Temin conclude, "No rebalancing of the labor force can restore a more equal distribution of productivity gains without government intervention and changes in private sector behavior."

We agree. **TAP**

Lawrence Mishel, *president of the Economic Policy Institute, directs the EPI education program.* ***Richard Rothstein*** *(riroth @epi.org) is a research associate of the EPI and the author of* Class and Schools: Using Social, Economic, and Educational Reform to Close the Black-White Achievement Gap.

Medifraud Amok

Heard about the company that resold the drugs that came back in the mail? That's apparently just a normal day in the life of our under-regulated drug industry.

BY ART LEVINE

"WE'RE HEARING THOSE PHRASES AGAIN," declared *Law and Order* district attorney, former Republican senator, and presidential candidate Fred Thompson in a July 26 ABC podcast. "National health care, universal health care, socialized medicine. We're being told that government bureaucrats can take over our entire medical industry—which, by the way, is the best and most complex in the world—and make it better."

Ah yes, the bureaucrats. As if the problem with our current medical system is *too much* oversight by meddling government agents. In truth, while conservatives rail against government-run health care, our limited versions of that—Medicaid and Medicare—have been exploited as boondoggles by the same drug companies that have, since 2000, spent nearly $1 billion on federal and state lobbying drives as well as campaign donations given overwhelmingly to Republicans, according to the Center for Public Integrity. In return, the corporate drug dealers have gotten their money's worth: unbridled profits and lax regulation of both corporate fraud and drug safety.

And despite periodic hearings and investigative stories, the hard-sell marketing to doctors continues virtually unabated, with increasingly worrying effects. A recent study in *The New England Journal of Medicine* found that 94 percent of physicians had some type of explicit relationship with the pharmaceutical industry. In fact, a government report done in Vermont found that in 2006 drug companies gave the average psychiatrist with high drug-company earnings a bit more than $45,000 in assorted honoraria and travel expenses. The report also found that physicians who took the most payments tended, more often than other doctors, to prescribe to children "atypical antipsychotics"—a new class of powerful medications—although none of these drugs have FDA approval for use with kids.

The problems go far beyond aggressively peddling new drugs to doctors. If they can't widen their market legally, pharmaceutical companies are proving quite capable of defrauding government health programs by using a myriad of clever pricing and marketing scams, federal and state prosecutors have found. But the federal officials who are supposed to be fighting health scams, including the Justice Department and the lead health-care program agency, the Centers for Medicare and Medicaid Services (CMS), have traditionally been underfunded and outgunned by the drug companies. And despite public assertions by Bush administration officials that fighting pharmaceutical fraud is a top priority, a knowledgeable Justice Department official privately told *The American Prospect*, "I believe that starting in 2002 there was a conscious decision that the pendulum had swung too far towards health-care fraud enforcement. The investigative and regulatory agencies are less supportive of making the cases and more supportive of drug industry arguments."

It turns out there are good reasons we are "hearing those phrases again" from Democrats seeking to expand health-care coverage. Just as conservatives constantly demand to know whether Americans really want civil servants administering Medicare (it turns out, they do), it's time Democrats began asking—through more hearings and in the presidential campaign—whether Americans really want the pharmaceutical industry calling the shots.

LET'S START WITH THE EASY PART: PHARMACEUTICAL COMPANIES make money by selling pharmaceuticals. To make more money, they must either increase prices or increase volume, or both. And one major way drug firms increase volume is by promoting drugs for off-label use.

That's where things get complicated. While doctors are generally free to prescribe medicines for unapproved uses, *companies* are barred by law from promoting their drugs for such unproven purposes. But they do anyway, sometimes in completely fraudulent scams. In the last few months, fresh signs have emerged that corporate drug fraud is proliferating. Whistleblowers have come forward with new internal documents aimed at exposing alleged illegal marketing schemes by Pfizer and AstraZeneca, two companies that have previously paid nearly $900 million in whistleblower-based cases.

In 2003, AstraZeneca pled guilty to falsifying claims for the injectable prostate cancer drug Zoladex, and paid $355 million to settle charges that it defrauded Medicare and Med-

icaid. Among other practices, the government charged that AstraZeneca lured doctors to use the drug in the form of free Zoladex for which the doctors then billed the government. As with most pharmaceutical fraud cases, the information first emerged from tips provided by a drug-industry insider.

Now, a new set of anonymous whistleblowers, calling themselves the "Group of 7," have come forward to provide documents alleging illegal marketing practices, which they have given to a former Pfizer marketing vice president and whistleblower Dr. Peter Rost for his blog, Question Authority, as well as to other news outlets. The group's advocacy has helped spur the Department of Health and Human Services' Office of Inspector General to investigate allegations that AstraZeneca's sales staff violated federal laws as well as its previous "corporate integrity agreement" with the federal government by its new marketing approach to the cancer drugs Faslodex and Arimidex.

WILLIAM WHITEHURST / CORBIS

The whistleblowers claim that they were urged to promote off-label uses and to make unproven comparisons with a rival cancer drug. One internal oncology sales newsletter featured an interview with regional sales director Michael Zubillaga, who described the prevailing attitude: "There is a big bucket of money sitting in every [doctor's] office. Every time you go in, you reach your hand in the bucket and grab a handful." After the stories broke in the pharma blogs in April, Zubillaga was fired, and a spokesperson for AstraZeneca announced in early May that it had concluded an internal investigation and had taken "appropriate disciplinary action." The company did not disclose any details but conceded that some of the charges had merit. The national sales director left AstraZeneca in May, although there's been no shake-up at the higher levels.

The recent history at Pfizer is similar. In 2004, Pfizer, the world's largest pharmaceutical company, settled a case over one of its subsidiaries' peddling the epilepsy drug Neurontin for unproven off-label uses; at the time, financial analysts noted that more than 90 percent of the drug's sales were for off-label uses. Similarly, last April, two Pharmacia subsidiaries of Pfizer settled allegations that they promoted unapproved uses of and offered kickbacks for the human-growth hormone product, Genotropin, and paid $34.7 million in fines and penalties.

This spring, despite those penalties, Rost published several e-mails showing that Pfizer apparently engaged in yet more illegal marketing, according to the documents provided by an anonymous sales representative. In one memo, a sales representative urged his team last fall to search out "research-naïve" doctors, as a marketing ploy, to conduct—for a fee—a spurious clinical trial of the HIV drug Maraviroc before the FDA approved it. *The Star-Ledger* of Newark followed up in June with reports that Pfizer is conducting an internal probe into whether its HIV sales force has made exaggerated claims for an older HIV drug.

A Pfizer spokesperson, Bryant Haskins, challenges the reliability of Rost's blog and other news accounts questioning Pfizer's marketing ethics. "Peter Rost obviously spends a great deal of his time making unfounded allegations about Pfizer and we're simply not going to be pulled into the response game each time he serves up another accusation," Haskins said in an e-mail response to *The American Prospect*. "Obviously Pfizer takes very seriously any legitimate concerns that are raised about possible violations of our commercial or corporate policies."

Rost believes such apparent misconduct stems from financial pressures. And he believes it will worsen as the industry faces the loss of as much as $121 billion in prescription drug sales as those drugs go off-patent in the next four years. "I think we're actually going to see an increase in these kinds of violations," he says. "The marketing and sales people have to deliver results while the companies have a hard time coming up with great new drugs."

THE PHARMACEUTICAL SALES REPS AND THEIR CORPORATE leaders, however, are not in this alone. "Pharmaceutical Benefit Managers" (PBMs) act as all-purpose middlemen between drug companies and the insurance plans and many state Medicaid programs that contract with them. These PBMs administer the drug plans that patients use to buy prescriptions at local pharmacies or by mail. They make bulk purchases, negotiate drug prices, and wield vast power over which drugs get selected to be in a health plan's formulary of approved medications. The field is dominated by just three companies—Caremark, Medco (formerly owned by Merck), and Express Scripts—that fill as many as 80 percent of the nation's prescriptions. These companies are also joined by smaller, specialized PBMs that provide mail-order and direct pharmacy services for seniors in long-term care facilities.

Unfortunately, says Patrick Burns of Taxpayers Against Fraud—a lawyer-funded advocacy group that promotes the use of "false claims" lawsuits by whistleblowers—"It's a crooked business." PBMs are supposed to obtain discounts for health

plans through volume purchases and drug manufacturers' rebates. But, as alleged in dozens of lawsuits filed in recent years by federal and state governments, along with HMOs, corporations, and unions, the PBMs have secretly retained most manufacturer rebates instead of passing them along to clients. They also have allegedly switched patients from low- to high-cost drugs by tricking patients and their doctors (or by just not informing them) and limiting the use of generics, and have allegedly reshipped potentially unsafe drugs that had been sent back by mail-order customers.

Last year, Medco, the second-largest PBM firm, which serves millions of Medicare beneficiaries, had to pay $155 million to settle a host of fraud claims, including the charge that the company destroyed valid prescriptions rather than face financial penalties from health plans if Medco failed to fill prescriptions quickly enough. The company was also charged with soliciting kickbacks from drug companies to favor their drugs. Medco had to enter into a supposedly rigorous corporate integrity agreement with Health and Human Services (HHS) that demanded disclosure of any side deals and more rigorous oversight by HHS' Office of Inspector General. That agreement was modeled after one reached by the government in 2005 with a subsidiary of Medco's competitor, Caremark, that involved $137.5 million in penalties.

But these kinds of corporate integrity agreements may not have much impact. The existence of such an agreement didn't seem to faze Caremark, which TheStreet.com reported last year to be facing an FBI investigation for its alleged practice of reselling drugs returned through the mail. The most damning details are found in pending whistleblower lawsuits in California and before a federal appeals court, all filed by attorney Michael Leonard of Chicago, on behalf of four ex-employees involved in Caremark's prescription drug processing facilities. The lawsuits and witness statements chronicle how drugs that were required by law to have been destroyed when returned were shipped out again. Attesting to these practices are witnesses like John Rose, who served as a supervisor in a Phoenix restocking facility. Rose recalled in a sworn statement that he was told during his training: "We were able to save a lot of money in drugs that we would otherwise be throwing out and wasting."

A spokesperson for Caremark discounts the claims in the Leonard lawsuits, noting that they haven't been pursued by any government agencies (the government takes on less than 30 percent of such cases) while arguing, "We maintain an industry-leading compliance and integrity program." The company also claims it obeys all pharmacy laws, including bans on reselling drugs.

Money is at the root of all these alleged PBM crimes. Last year, Omnicare, a smaller PBM that primarily services nursing homes and is a major Medicaid contractor, agreed to pay at least $102 million to settle Medicaid fraud charges in 42 states. One of its alleged scams: illegally switching patients to capsule versions of a drug that cost 17 times more than the cheaper tablet form. Although it didn't admit wrongdoing in those cases, it paid $52.5 million to Michigan alone, the largest civil fraud case in Michigan history. The state's attorney gen-

eral, Mike Cox, said, "To defraud the Medicaid program, meant to provide for the least among us, is especially egregious." The firm's Michigan subsidiary, Specialized Pharmacy Services, was charged for fraudulent billing, including bogus claims for dead beneficiaries—and the then–CEO of this Michigan subsidiary was charged with 148 counts of Medicaid fraud. His case is still pending.

A firm spokesman, Andy Brimmer, explained away the expensive settlements: "None of the settlements with various states included any findings of wrongdoing or any admission of liability. In agreeing to settle, Omnicare made a prudent business decision to avoid the time and expense involved in litigation."

Despite the rising tide of criticism, the Pharmaceutical Care Management Association trade group denies any widespread wrongdoing by the industry. A spokesman insisted that PBMs lower the cost for prescriptions for 210 million people who are members of health plans and employees of major corporations. He added that General Motors wouldn't contract with the PBMs again and again if they weren't delivering value.

DESPITE THESE COSTLY SETTLEMENTS, FRAUD IS PROLIFERATING. There are more than 200 lawsuits against Pfizer in federal and state courts in Massachusetts and New York alleging the company marketed Neurontin for countless ailments while racking up more than $2 billion in annual sales, even as use of the drug led to suicides and attempted suicides after the manufacturer—and the FDA—ignored warnings about its dangers.

One reason the fraud continues is that the fines are seemingly not high enough to stop it. All the resolved lawsuits cost Pfizer less in settlements than the questionable business practices generate in profits. For instance, the $430 million the company paid in May 2004 for its subsidiary's illegal marketing of Neurontin was only about 15 percent of the drug's gross sales of $2.7 billion in 2003. The few billion paid out in recent false claims lawsuits by major firms are seen by the drug companies as "just a cost of doing business," says Shelley Slade, a former Justice Department health fraud attorney who specializes in representing false claims plaintiffs.

What's more, the major drug companies virtually never face the most serious penalty possible: being barred from participating in government health programs such as Medicaid and Medicare, which account for more than half the sales of all prescription drugs. "If they're disbarred from those programs, for a lot of them, that's the death knell," says Thomas Greene, an attorney who represented a whistleblower in the Neurontin case. Yet as Burns, of Taxpayers Against Fraud, points out, barring major drug companies from these programs could be too disruptive to doctors and patients who depend on their medications for legitimate, vital care. He suggests a stronger disincentive to fraud that doesn't harm patients: barring lawbreaking companies from extending their patents on their most profitable drugs.

Another part of the problem is structural. The False Claims Act, a Civil War–era law that was strengthened in 1986, is the federal government's primary weapon in recovering billions stolen by a wide range of U.S. government contractors, as it authorizes the sharing of settlements with whistleblowers. But because government agencies lack the manpower and skills—and enough whistleblowers—to catch drug-pricing fraud, the pace of the cases is glacially slow, with roughly 70 percent of whistleblower-submitted cases ultimately rejected by prosecutors. According to Taxpayers Against Fraud, there is a backlog of 180 federal lawsuits alleging false claims about drugs by pharmaceutical companies, representing a potential recovery of $60 billion in funds to the federal government and state Medicaid programs. To drug companies, this slow pace of prosecution renders the possibility of fines almost hypothetical. Additionally, while prosecutors investigate, these cases remain "sealed," often for years, so the public doesn't know the number of repeat offender companies amid the hundreds of pending federal and state cases. This shortfall at the federal level is even more striking given that the federal government directly gets back an estimated $15 or more in reclaimed revenues, criminal fines, or civil penalties for every $1 spent in false claims act prosecutions.

Finally, despite all the agencies set up to detect pharmaceutical fraud, it's usually up to whistleblowers—who are hard to come by—to make the major cases possible. The former assistant U.S. attorney in Philadelphia, Jim Sheehan, who has left that job to become New York state's new Medicaid inspector general, points out: "For every good fraud case, you need somebody who is inside and knows the bad stuff. Otherwise, the defense can hide the ball from you forever."

The Centers for Medicare and Medicaid Services, which administers these federal oversight programs, has been cited in years' worth of highly critical reports and oversight by Congress and the Government Accountability Office (GAO). Indeed, Democrat Henry Waxman, chairman of the House Committee on Oversight and Government Reform, says that none of the potential enforcement agencies, including the Justice Department, Centers for Medicare and Medicaid Services, and HHS' inspector general, have "lived up to their responsibilities," despite the occasional high-profile bust of shady doctors and medical supply companies.

Today's congressional investigators scorn CMS' "bureaucratic indifference," as one Hill staffer says, and agree with a 2005 GAO report that found "minimal oversight" by CMS of Medicaid's drug rebate program that is supposed to garner manufacture discounts. Rep. Pete Stark, the Democrat from California who is chairman of the House Ways and Means Committee's health subcommittee, says CMS is "absolutely

The few billion paid out by major firms in recent lawsuits are seen by the drug companies as "just a cost of doing business."

incompetent, derelict, and could very well be criminal" when it comes to oversight of Medicare payments to drug companies. Adds Waxman, "We have failed the taxpayers if we allow these dollars that were intended for prescription drugs to be stolen or wasted, and we also let down the elderly, poor, and disabled who need these medications."

Since the Medicaid-slashing Deficit Reduction Act (DRA) of 2005, Medicaid's ability to reduce waste and fraud supposedly has been strengthened, but few outside CMS expect it to crack down on drug companies. In fact, as Leighton Ku, a Medicaid expert at the Center on Budget and Policy Priorities, observes, "There was a deliberate choice with the DRA that it's okay to harm poor beneficiaries—but they went out of their way to avoid cuts to drug companies."

Politically, though, it's still important for the Bush administration to *appear* to fight health-care fraud. To that end, with the backing of the White House, the DRA law authorizes CMS to start a significant new initiative, the "Medicaid Integrity Program," that aims to strengthen federal oversight of state Medicaid fraud control efforts by hiring outside contractors to catch rip-offs. A CMS spokesman, Jeff Nelligan, says of the Medicaid integrity initiative, "We hope to see the results of this new, aggressive effort to combat the kind of fraud that can threaten the future of this vital program." But Stark, judging by the agency's approach to Medicare oversight, believes the ballyhooed new program "won't accomplish anything."

While CMS has largely failed to monitor and prevent drug company fraud, it's often up to the Justice Department to actually pursue the false claims cases so critical to punishing errant companies and recovering taxpayer dollars. And there, too, the effort has been relatively weak. Health-care fraud enforcement hasn't been politicized like, say, the civil-rights division. But the lack of resources devoted to cracking down on lucrative pharmaceutical fraud is a disturbing political decision in its own right. Perhaps no more than "a dozen or so full-time attorneys" work in the central Justice Department on pharmacy fraud, according to James Moorman, president of Taxpayers Against Fraud, while the department apparently diverts as much as $30 million a year allocated to it for fighting health-care fraud to other pet causes. (The Justice Department declined to answer questions on this topic.) At hearings before Waxman's oversight committee, Moorman, citing these issues and the backlog of fraud cases, observed, "There is a serious danger that the Justice Department will be unable to resolve most of these cases in a timely and satisfactory manner. The reason is a lack of resources and top-level leadership."

After all, as one Justice Department official put it even more bluntly, "It's hard for us to fight health-care fraud in between handling immigration and child pornography cases."

Damn bureaucrats. Always meddling. **TAP**

Art Levine *is a contributing editor of* The Washington Monthly *who has also written for* Salon, The Atlantic, *and numerous other publications. Research assistance for this article was provided by the Investigative Fund of the Nation Institute.*

Culture & Books

"During the Cold War, the CIA subsidized the avant-garde. The idea was precisely not *to attach political strings to specific artists or projects."*

— PAGE 55

RICHARD THOMPSON

TRENDS

FIRST LADIES IN TWO MODES

Democratic candidates have partners who can be more liberal than they. Republican candidates, ideally, are still married to June Cleaver.

BY ANN FRIEDMAN

WITH PHRASES LIKE "COMmanding daddy of a candidate" and "shoulders you could land a 747 on," descriptions of the frontrunners for the 2008 Republican nomination have tended toward the cartoonishly masculine. And alongside that campaign is another, to elect the most suitable—most feminine—First Lady.

As Peggy Noonan wrote in *The Wall Street Journal*'s opinion pages in August, Republican voters essentially want another Laura Bush. It is no longer in vogue for the First Lady to be only First Decorator; she must have causes—gentle ones like literacy and heart disease—but, Noonan warned, no political agenda. Publicly, a First Lady–hopeful should appear as serene as if she'd just popped a Xanax and downed a glass of wine. Republican consultant Frank Luntz recently told *The New York Times*, "The spouse of the candidate ... [is] not relevant. It will have no impact whatsoever."

It appears the Republicans intend to keep it that way. Ann Romney has declined to be interviewed for her own profiles, saying through a spokesperson that she "is not a political figure." And while it's rumored that Judi Giuliani and Jeri Thompson have significant behind-the-scenes influence, in public they're striving for the Laura Bush image as well. Republicans are acting like it's still 1950, and in failing to acknowledge that modern marriage is a partnership, they're missing out on what could be a winning campaign tactic.

The slow evolution of the First Lady has been mainly a Democratic experiment. Setting aside would-be "First Laddie" Bill Clinton—who more than most First Mates must be careful not to overshadow his spouse—the most prominent of the potential Democratic First Ladies is Elizabeth Edwards. She has consistently been one of the boldest parts of the campaign: taking on Ann Coulter's vitriol, defending the $400 haircut, and declaring that her husband would be the president for women. In a race in which Hillary Clinton has a natural advantage in connecting with a roomful of Democratic women, an appearance by Elizabeth Edwards helps her husband, the lone, white male top-tier candidate, to play the identity politics game, too.

But Elizabeth's role is not only as John in heels. On cultural issues, she plays to the ultra-liberal base while he, anticipating the general election, hews closer to the center. When John was asked recently about his beliefs on gay marriage, he answered that, due to his faith, he only supports civil unions. But he added a caveat: "My wife, Elizabeth, spoke out a few weeks ago, and she actually supports gay marriage." It was an addendum intended to inspire hope—that he's open

to discussing the issue, that Elizabeth might have some sway.

Michelle Obama is also embracing an overtly political role, though as yet she seems unsure just how political to be. Initially she seemed almost Republican in style, announcing that she was “scaling back” at her day job as a hospital executive in order to devote herself to the campaign, telling the press, “My job is not a senior adviser. I am here as a wife,” and pledging not to interfere as First Lady in policy matters. But as profiles of the former hospital executive began to emerge, it became clear that she was conflicted about her decision to quit her job (she called the step “a bit disconcerting”) in order to devote herself to her husband's work. More recently, on the trail in Iowa, she made headlines for delivering what commentators dubbed a “super-charged” version of her husband's stump speech. And it's been Michelle—not Barack—who has publicly expressed anger at questions of whether he is “black enough.” Barack has responded with light-hearted humor, with mild frustration, with thoughtful questions. But he's certainly not enraged. That's been Michelle's territory.

Eleanor Roosevelt may have broken the mold, but the Clintons were the first to fully embrace the power-couple dynamic on the campaign trail.

Of course, none of this would have been possible without the innovations of the first First-Lady-turned-presidential-candidate. Eleanor Roosevelt may have broken the mold, but the Clintons were the first to fully embrace the Democratic power-couple dynamic on the campaign trail. Early in the 1992 race, Hillary dared to declare, “I suppose I could have stayed home and baked cookies and had teas, but what I decided to do was fulfill my profession.” The reams of bad press that ensued sent her scurrying back in time (she even submitted a cookie recipe for the bake-off with Barbara Bush). But Bill Clinton wasn't afraid to promise voters a “two for the price of one” presidency.

Once elected, the Clinton White House put Hillary in the line of fire on policy issues, sometimes to protect the president himself. It was she who fielded questions from the press about Whitewater in her first formal meeting with the media as First Lady. And it was she—not he—who was the public face of their daring health-care plan. (Now that the Clintons' roles are reversed, Hillary's campaign may wish that Bill had attached his own name to certain quotes and initiatives.) This is one way in which the First Partner model is of greater advantage than the Laura Bush model: It allows the candidate to appear centrist while the spouse tends to the base.

Republican candidates might consider embracing modern marriage, too. They could, for instance, seek a candidate married to an extreme right-winger, say, a board member of Concerned Women for America, or a former abortion-clinic protester, and use that First Lady as the public face of initiatives and viewpoints deemed too right-wing for a general election candidate. Or they could nominate a more centrist First Lady who would offset her husband's catering to the extremely conservative base.

But the Republicans won't be availing themselves of this strategy. Doing so would require them to promote a First Lady who was willing to assume “partner” status in politics—something some conservative voters might not go for. Noonan described the conservative ideal: “She always telegraphs that she'd have been happy staying home, smoking cigarettes, and admiring her family. First Lady is an elevated title. We'd rather elevate someone who's making a sacrifice, not someone who's grabbing a rung.”

That's a quaint way of looking at it. But this isn't the 1950s, and the women “staying home, smoking cigarettes, and admiring her family” are few and far between. One of these days, Republicans just might take notice. TAP

THE ARTS

ARTS AND MINDS

The State Department wants to fund artists to create works for overseas museums—so long as the art promotes U.S. foreign policy.

BY SHARON L. BUTLER

THE UNITED STATES GOVERNment wants to enlist members of the art community to help win "hearts and minds." This fall, the American Association of Museums will award almost $700,000—half of it from the State Department—to American grant applicants for overseas artistic outreach projects. The idea isn't new, but the level of control the government may assert over the actual art is.

At first blush, this program, Museums & Community Collaborations Abroad (MCCA), appears to be an earnest extension of U.S. "public diplomacy" efforts, intended to help our country regain the international admiration it has lost during the Bush presidency. Under closer scrutiny, however, it is less benign. For one thing, the State Department requires that each proposal explain "how this project promotes U.S. foreign policy." For another, it turns out that U.S. embassies and consulates are allowed—or, one might guess, encouraged—to preselect foreign museums for participation. The application guidelines also specify that proposals involving preselected museums "may receive additional consideration by the MCCA selection committee."

In this light, the MCCA program raises the uneasy question of whether the government should be influencing art for political purposes through state largesse at all. The issue is not altogether unfamiliar. During the Cold War, the CIA subsidized the avant-garde through front organizations such as the Congress for Cultural Freedom, which supported abstract expressionist painters as well as intellectual magazines like *Encounter*, *Monat*, and *Partisan Review*. The idea was precisely *not* to attach political strings to specific artists or projects, but to show ambivalent foreign elites that Western capitalist democracy constituted the most fertile ground for artistic freedom. Indeed, many of the artists and writers that the CIA supported tilted to the left, which, as writer Louis Menand has noted, betrayed the rather sophisticated conviction that "it's possible to be left-wing, avant-garde, *and* anti-communist."

RICHARD THOMPSON

As CIA operations went, supporting the arts was benign and enlightened. Its clandestine nature raises red flags, but the reality was that in the 1950s and 1960s American citizens were highly suspicious of the avant-garde. The majority didn't appreciate the new art that the government was promoting; they preferred more traditional realism. Moreover, they saw the avant-garde message as sympathetic to communism and, more broadly, as anti-American—not an affirmation of American freedom.

Unlike that previous effort, the State Department's joint venture with the American Association of Museums is able to be entirely overt without raising conservative hackles. Indeed, given the difficulty the Bush administration has had in winning "hearts and minds" in the global "war on terror," deploying the arts as a soft, noncoercive form of American influence certainly *seems* like a promising approach. But both the State Department's preselection prerogative and the express funding criterion of advancing U.S. foreign policy pose the risk that the government will scrutinize content to an unacceptable degree.

The seeds of direct content regulation were sown in the late 1980s, when National Endowment for the Arts (NEA) support for the controversial work of Robert Mapplethorpe and Andres Serrano triggered the "culture wars of the arts." These culminated in *NEA v. Finley* (1998), in which the U.S. Supreme Court upheld a federal law requiring the NEA to consider "general standards of decency" and "respect for the diverse beliefs and values of the American public" in awarding government grant money to artists. The decision enshrined a high level of NEA attention to content, and paved the way for similar scrutiny on the part of other government grant-giving agencies.

Another effect of the decision was that projects and grant proposals that addressed community needs were the most readily funded. Artists adapted, and their community involvement was generally beneficial. Now, in essence, artists and arts organizations will be funded to fulfill a similar mandate on an international scale, and confidence that they can do so is warranted. But if the actual awards are inordinately skewed toward projects involving preselected institutions—or, worse, toward efforts directly targeting ideas deemed "anti-American"—much of the arts community will drop out. Beyond that, foreigners will be more likely to perceive the projects themselves as bald propaganda tools rather than well-intentioned channels of cultural openness and reconciliation.

Clandestine though its Cold War activities were, the CIA realized correctly that it was the West's artistic freedom—not political didacticism—that attracted those from other cultures. The State Department and the American Association of Museums need to follow that model by doing away with preselection and the implicit requirement that funded projects directly promote U.S. foreign policy. And they should make no secret of it. TAP

***Sharon L. Butler** is a practicing artist and a professor of visual arts at Eastern Connecticut State University. She maintains a blog about painting at www.twocoatsofpaint.blogspot.com.*

BOOKS

THE IMPERIAL FALLACY

DAY OF EMPIRE: HOW HYPERPOWERS RISE TO GLOBAL DOMINANCE—AND WHY THEY FALL BY AMY CHUA, Doubleday, 432 pages, $27.95

AMONG EMPIRES: AMERICAN ASCENDANCY AND ITS PREDECESSORS BY CHARLES S. MAIER, Harvard University Press, 373 pages, $27.95

BY MICHAEL LIND

"THE AGE OF IMPERIALISM IS ended," Sumner Welles, Franklin D. Roosevelt's under secretary of state, declared in 1942. Welles would have been shocked to learn that six decades later a number of American foreign policy thinkers would matter-of-factly describe the United States as an empire. "The fact of American empire is hardly debated these days," Thomas Donnelly, a neoconservative foreign policy analyst, wrote in *Foreign Affairs* in 2002. Donald Rumsfeld's Defense Department asked selected historians what lessons Americans could learn from empires of the past. Marxists, to be sure, had always described the United States as an empire, and for generations conservative isolationists have complained that the American republic gave way to an empire with the Spanish-American War, or the world wars, or the Cold War. The America-as-empire theme has now been taken up by two eminent scholars who do not belong to the neocon, radical, or isolationist traditions. But the popularity of an idea does not necessarily indicate that it is well-conceived.

In *Day of Empire*, Amy Chua, a professor at Yale Law School, writes that her book is a response to Samuel Huntington's claim in *Who Are We?* (2004) that immigration is weakening American society by dividing it between Spanish and English speakers. On the contrary, Chua asserts, diversity is strength: "For all their enormous differences, every single world hyperpower in history—every society that could even arguably be described as having achieved global hegemony—was, at least by the standards of its time, extraordinarily pluralistic and tolerant during its rise to preeminence. Indeed, in every case, tolerance was indispensable to the achievement of hegemony."

Chua's first book, *World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability* (2002), is a brilliant and provocative study of economic conflicts between ethnic majorities and minorities. But her attempt in her second book to build a monocausal ethnic-diversitarian theory of how to succeed in world politics is flawed in its conception.

Chua lumps societies as different as the 21st-century United States, the 17th-century Dutch Republic, and the Persian, Roman, Chinese, Mongol, Mughal, Spanish, and Ottoman empires together in the elastic category of "hyperpowers." This broad definition elides key distinctions. Great powers in a system of multiple states are fundamentally different from universal empires whose boundaries are those of a civilization. Militaristic continental land powers also need to be distinguished from countries such as the Netherlands, Great Britain, and the United States that achieve financial and commercial hegemony and maritime supremacy without militarily dominating other great powers. The United States today has the world's primary reserve currency and what the political scientist Barry Posen calls military "command of the global commons" of sea, air, and space, but it lacks the power to dictate policies to France, Germany, or Japan, much less China, Russia, or India. In the same way, British and Dutch naval mastery and financial supremacy never translated into British or Dutch military hegemony in the European state system.

Besides blurring these critically important distinctions, Chua conflates two radically different conceptions of

tolerance. "By tolerance, I don't mean political or cultural equality. Rather, as I will use the term, tolerance simply means letting very different kinds of people live, work, and prosper in your society—even if only for instrumental or strategic reasons." By this standard, illiberal, autocratic empires that were indifferent to the religions and customs of the ethnic groups on which they preyed were as "tolerant" as modern liberal democracies that grant equal rights to citizens of different ancestries and beliefs.

Chua compiles a long list of allegedly tolerant "hyperpowers" as evidence that there is a "path the United States could take that would virtually ensure its decline: a turn to xenophobic, anti-immigration policies." But the comparison between imperial expansion and voluntary immigration doesn't work. Of course, vigorous empires became increasingly multiethnic as they expanded because they were subjugating and incorporating more tribes! Not a single one of the "tolerant" empires that Chua cites, including the racist British Empire, was a voluntary federation of sovereign nations, like the European Union, or a nation-state enlarged by voluntary immigration, like the United States.

The relevant modern history does not support Chua's attempt to correlate ethnic diversity with economic and military success. All modern nation-states, including the multiracial, immigrant-friendly U.S. and multiethnic India, are much less ethnically diverse than the multinational empires that formerly ruled them. Yet far more progress in civil rights, economic growth, and democracy has occurred in post-imperial nation-states than ever occurred in the former empires. The most generous welfare states in the world were created in the 20th century by the ethnically homogeneous Nordic democracies. Equally homogeneous East Asian nation-states provide most of the success stories in economic development since World War II. Most failed states in the world, including Iraq, Afghanistan, and arguably Pakistan, are multiethnic polities with borders arbitrarily created by European or Soviet colonial administrators.

Nor does it make any sense to compare the United States to polyglot, multinational agglomerations like the dynastic and national empires of the past. The United States is a multiracial nation-state with an overwhelming Anglophone cultural majority, where the diaspora cultures of voluntary immigrants usually fade away after a generation or two as a result of assimilation and intermarriage. Indeed, there may be a tragic trade-off between diversity and social solidarity. The recent work of political scientist Robert Putnam shows that such measures of civic health as mutual trust and political participation decline in ethnically diverse areas in the United States. The economists Edward Glaeser and Alberto Alesina have argued that around half the difference in welfare spending between the United States and Europe is attributable to the greater ethnic and racial diversity of the U.S. population. This is hardly news. In the late 19th century, Friedrich Engels attributed the weakness of socialism in the United States to ethnic divisions among European immigrants and native-born Americans. Both the New Deal and the civil-rights movement achieved their goals during the period of restricted immigration between the 1920s and the mid-1960s, when rapidly melting ethnic differences among whites and a shrinking foreign-born population forged a supermajority secure enough in its common identity to support the integration of black Americans.

Reasonable people can disagree about the desirable scale and composition of legal immigration to the United States. But not even proponents of more generous immigration policies are likely to take seriously Chua's argument that the U.S. should take in more immigrants because the Achaemenid Empire at the height of its power roped together a lot of conquered ethnic nations.

IN HIS BOOK *AMONG EMPIRES*, CHARLES S. Maier, professor of history at Harvard, questions the very enterprise of comparing the United States to empires of the past. "Does the United States *have* an empire?" and "Can the United States pos-

sibly be construed as *being* an empire?" he asks. He answers both questions with a qualified no: "Far-flung military bases are a prerequisite for imperial influence but do not themselves constitute an empire." As to "whether the United States is an empire at home," he says, "Not yet, at least."

If the contemporary United States is not an empire, what is it? "Critics of the term *empire* have suggested that the United States is instead a hegemonic power," Maier writes. "*Hegemon* is a Greek term that means preeminence and leadership." The United States "has been 'merely' hegemonic in Europe and Latin America" and "potentially imperial" only in the Caribbean and possibly Afghanistan and Iraq.

These careful distinctions are persuasive. To carry out his comparative project, however, Maier frequently ignores the very distinctions he has drawn. For example, he treats U.S. policy toward American Indians as imperialism comparable to overseas colonialism: "Modern imperial forces have also met defeat, often in overconfident expeditions in frontier regions—Custer against the Sioux in 1876, the British against the Zulu in 1879, the Italians against the Ethiopians in 1885 and again in 1896, the Spanish against the Moroccans in 1921." But in most of the European settler states of the Americas, as well as in Australia and New Zealand, white or mestizo majorities displaced and confined indigenous populations. It seems odd to describe Canada and Mexico as "empires" for this reason.

Even more questionable is Maier's use of the concept of empire in connection with trade and investment. Maier describes the global trading system as America's "empire of production" that has evolved into an "empire of consumption": "Free trade was the pendant of monetary hegemony. The 1960s became for the United States the analogue of the Victorians' 'empire of free trade,' an era in which the technological superiority of the major economic power meant that its interests coincided with as broad an opening of international markets as possible." Maier's discussion of U.S. trade policy, like his analysis of U.S. security strategy, is insightful and deeply informed. But what is gained by using the term "empire" instead of less loaded phrases such as commercial or financial hegemony?

Maier's reference to "the Victorians' 'empire of free trade'" is an allusion to an influential 1953 article by Ronald Robinson and John Gallagher, "The Imperialism of Free Trade." Robinson and Gallagher argue that private British overseas investment, much of which was outside of the formal British Empire, should be treated as part of the empire as well. By this definition, ranches in Wyoming and factories in Pittsburgh financed by British investors were part of the British Empire. Maier's notion of an "empire of consumption," in which Chinese factories making goods for the U.S. market are part of an American "imperial" system, is vulnerable to the same objection.

Maier is a subtle and erudite historian. But his ambitious attempt at comparative politics suffers from what he himself calls "the difficulty of shoehorning the United

States into the received models of imperial power." If hegemony in a pluralistic state system is imperialism, and an unequal alliance is imperialism, and voluntary trade is imperialism, and the treatment of indigenous minorities is imperialism, then everything is imperialism, and the concept is too multivocal to be useful.

This might be dismissed as a scholastic quibble over semantics, were it not for the implications for contemporary politics. When distinguished mainstream scholars like Chua and Maier, and not just neoconservative polemicists like Victor Davis Hanson and Max Boot, seek to compare the United States to ancient and modern colonial empires, the *Zeitgeist* has become truly ominous.

What happened to the story that American liberals and moderate conservatives alike used to tell about the role of the United States in the world? Mid-20th-century liberal internationalists like Franklin D. Roosevelt and Wendell Willkie shared the not altogether implausible view that the secession of the American colonies from the British Empire, the Monroe Doctrine, the Open Door Policy in Asia, the Fourteen Points, and the Atlantic Charter were successive stages in the erosion of imperialism and the establishment of a single global society of sovereign states based on popular self-determination and united by collective security organizations and voluntary trade and investment. Marxists and realists have always treated liberal internationalism as imperialism in disguise—to the benefit, it turns out, of neoconservatives who can cite both leftists and realists in attempts to show that their neoimperialism is the natural culmination of America's foreign policy tradition, rather than the aberration that it actually is. If liberal internationalism is to be restored as the basis of U.S. foreign policy, then the first step must be to insist that liberal internationalism is not simply another kind of imperialism and that the United States is not simply another empire. **TAP**

***Michael Lind**, the Whitehead Senior Fellow at the New America Foundation, is the author of* The American Way of Strategy.

Moral Hazard Is for Suckers

BY ROBERT B. REICH

LAST SUMMER, WHILE SITTING ON A BEACH, I OVERheard a father tussle with his young son about whether the child was old enough to take out a small sailboat. The father finally relented. "Go ahead, but I'm not gonna save you," he said, picking up his newspaper.

A while later, the sailboat tipped over and the child began yelling for help, but his father didn't budge. I put down my book, walked over to the man, and delicately told him his son was in trouble. "That's okay," he said. "That boy's gonna learn a lesson he'll never forget." I walked down the beach to notify a lifeguard, who promptly went into action.

Letting children bear the consequences of their risky behavior—what some parents call "tough love"—can be applied to adults as well, and conservatives have made a virtual fetish of it. A few weeks ago, as George W. announced a paltry plan to help out a few of the millions of homeowners who got caught in the sub-prime loan mess, he reiterated the credo: "It's not government's job to bail out ... those who made the decision to buy a home they knew they could never afford."

People do tend to be less cautious when they know they'll be bailed out. Economists call this "moral hazard." But even when they're careful, people cannot always assess risks accurately. Many of the mostly poor home buyers who got into trouble did not know they couldn't afford the mortgage payments they agreed to. The banks and mortgage lenders that pulled out all the stops to persuade those home buyers to the contrary were in a far better position to know. So were the credit-rating agencies that gave these loans solid credit ratings, as did the financiers who bundled them with less-risky loans and sold them to other financial institutions.

The real moral hazard in this saga started when Federal Reserve Chairman Ben Bernanke cut the Fed's discount rate (charged on direct federal loans to banks) and announced that the Fed would take whatever action was needed to "promote the orderly functioning of markets." Translated, this means that lenders, credit-rating agencies, financial intermediaries, and hedge funds will be bailed out, one way or another, because they're simply too big to fail. Note that behind every one of these institutions lurk thousands of well-paid executives who would have lost big if the Fed hadn't come to their rescue. Even though they had more information and experience at risk-taking than the suckers who borrowed their money, moral hazard doesn't apply to them.

Lenders, credit rating agencies, and hedge funds—that is, thousands of well-paid executives—will be bailed out. The little guys will get tough love.

When big entrepreneurs take big risks that fail, it's amazing how often they get bailed out. The history of modern American business is littered with federal bailouts, loan guarantees, and no-questions-asked reorganizations: the Chrysler bailout of 1979, the savings and loan bailout of 1989, the airline bailout of 2001. Most bailouts, however, occur in the relative dark, such as the 1998 rescue of giant hedge fund Long-Term Capital Management, the not infrequent bailouts of under-funded corporate pension plans by the government's Pension Benefit Guarantee Corporation, price supports for big agribusinesses facing market downturns, or the current bailout of Wall Street being engineered by Bernanke's Fed.

CEOs get away with stupid mistakes all the time. Some, like Robert Nardelli, the former CEO of Home Depot, drive their company's stock so low that their boards eventually oust them. But they leave with eye-popping going-away presents nonetheless. (Nardelli got a $210 million severance package.) If you're an average American who gets canned from your job, even through no fault of your own, you probably won't even get unemployment insurance (only 40 percent of job losers qualify these days). Conservatives tell us that unemployment insurance reduces workers' incentive to find a new job quickly. In other words, moral hazard.

Some CEOs use bankruptcy as a means of getting out from under pesky labor contracts. Others use it as a cushion against bad bets. Donald ("You're fired!") Trump's casino empire has gone into bankruptcy twice with no apparent diminution of the Donald's passion for risky, if not foolish, endeavor. After all, his personal fortune is protected behind a wall of limited liability. But if you're an ordinary person who has fallen on hard times, just try declaring bankruptcy to wipe the slate clean. A new law governing personal bankruptcy makes that route harder than ever. Its sponsors argued—you guessed it—moral hazard.

The little guys get tough love. The big guys get forgiveness. TAP